

**United States Agency  
For International Development  
Office of Privatization and Economic Restructuring**

**Privatization of Civilian and Defense Industries  
Contract Number CCN-0005-C-00-3108  
Project Number 110-0005**

**Final Report**

**April 18, 1997**

**KPMG**

**BARENTS**  
—GROUP•LLC—

**2001 M Street, N.W.  
Washington, D.C., 10036**



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April 15, 1997

Mr. Walter Coles  
USAID  
ENI/PER/NISP  
Plaza East 1800 N. Kent, Room 3214  
Arlington, VA 22209

**Subject: Final Report, Project to Provide Technical Assistance to Privatization in the  
NIS  
Contract CCN-0005-C-00-3108-00**

Dear Mr. Coles:

Attached please find copies of the final report of the project to provide Technical Assistance to Privatization in the NIS, as required under Section D.1(e) of the subject contract. Copies of this report are also being sent to other parties as specified in the contract.

While the highly successful capital markets infrastructure projects in Russia and later in Ukraine were the highlights of our work under the contract, crucial contributions were also made in advancing privatization initiatives in Kazakstan, Russia, and Ukraine. All of these efforts made highly visible and important contributions to market reform in the region. In many cases, institutions created under the contract are now important components of the civil society and are continuing to lead the charge for legal, regulatory, and institutional reform.

It has been our pleasure to undertake the various activities we conducted for USAID under the sponsorship of this project. We hope that the progress shown in the pages of the report demonstrate the beneficial results of Barents Group's work with USAID and host country counterparts for advancing privatization in the NIS.

Very truly yours,

Barents Group LLC

A handwritten signature in cursive script that reads "Carol L. Swan".

Carol L. Swan  
Director of Contracts

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**FINAL REPORT**

**Title of Activity** Task Order #1-0003-KPMG: Transfer  
Agency/Share Registry, Phase I

**Country of Performance** Russian Federation

**Period of Performance** July 6, 1993 - January 20, 1994

**Brief Overview of Scope of Work, Technical Approach and Methodologies Used**

Two major objectives were identified:

- ◆ The Russian Government saw a clear need to facilitate the development of appropriate security market infrastructure to promote trading of share on the secondary markets. Identification of key role of the Government in setting rules and facilitating the development of critical infrastructure, such as trading, and clearing and settlement systems.
- ◆ With the end of the Russian mass privatization program in sight, there was an urgent need to establish an effective and efficient policy framework for a transparent system to encourage development of and participation in capital markets. Such a framework was considered particularly important because the Government's mass privatization was placing pressure on weak and underdeveloped secondary market institutions, particularly share registrars.

KPMG was tasked to design the policy and legal framework and to increase the ability of registrars, transfer agents, securities depositories and related institutions to serve the new base of 40 million shareholders.

To understand the problem, joint KPMG and Deloitte & Touche teams interviewed dozens of individuals and institutions involved in the Russian capital market, including:

- ◆ GKI officials
- ◆ Consultants involved in the mass privatization projects
- ◆ Stock exchanges in Moscow and St. Petersburg
- ◆ Broker/dealers
- ◆ Investment funds
- ◆ Banks

Following the diagnostic visits, the two teams made a joint presentation to their GKI and USAID counterparts, presenting a proposed workplan for the Task II follow-on project. This included the creation of clearing and settlement organizations, the creation of

**FINAL REPORT**

**Title of Activity** Task Order #2-0009-KPMG: Development of Share Registration, Transfer, Custody & Depository Institutions in the Russian Federation

**Country of Performance** Russia

**Period of Performance** August 20, 1993 - April 30, 1994

**Brief Overview of Scope of Work, Technical Approach and Methodologies Used**

KPMG Peat Marwick was tasked by USAID to assist the Government of the Russian Federation with technical assistance in the areas of design, policy, legal framework and institution building for registrars, transfer agents, securities depositories, and related institutions. The project consisted of three tasks, some of which were carried out in parallel with Deloitte & Touche:

- ◆ Review of Capital Markets and the identification of pilot institutions
- ◆ Institutional development
- ◆ Policy, legal, and regulatory framework as related to Capital Markets

**Contributing Staff Members**

Jonathan Bulkley, Alex Berg, Thomas Corcoran, Suzanne Trimbath, Jean Spears, Daniel Hill, Michael Harman, Nick Gunya, Susan Nolen, Alison Giblett

Subcontractors: J. Dreyer Associates  
Jacob Dreyer  
Eccles & Associates  
Stephanie Heath  
Nasdaq  
Michael Kulzak, Gary DiNoia  
Khan and Hill  
Daniel Hill, Scott Richardson

**Accomplishments of Task**

All key objectives were achieved. As noted in the final report of May 15, 1994, and the five volumes of deliverables prepared under the Task Order, technical assistance provided under the project included:

- ◆ The creation or enhancement of nine third party registrars

- ◆ Two registrar software service providers
- ◆ The Registrar Support Center for roll-out of technical assistance, and
- ◆ The Clearing and Settlement Organization (CSO) developed in St. Petersburg

### **Deliverables**

Products and deliverables included:

- ◆ General assistance to the GKI in the area of capital markets development, provided by resident advisors
- ◆ Institutions developed, including (estimated):
  - ◇ Depository (2 to 4)
  - ◇ Custodian (4 to 8)
  - ◇ Registrar/Transfer (2 to 4)
  - ◇ Service provider to above (1 to 2)
- ◆ Continuing advice to GKI and other Russian Government and private institutions on regulatory and standard development, including surveillance and audit procedures and mechanisms
- ◆ Policy, procedures, and standards development for key functions, such as:
  - ◇ Changes and additions to the existing legal framework
  - ◇ Standard contractual arrangements and formats for key service providers
  - ◇ Interfaces with other functions and providers of same service at regional and central level

### **Issues, Recommendations, and Unfinished Tasks**

The Registrar Support Center was not envisioned in the original task order, but represents an excellent model to support the “roll-out” of this type of assistance.

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**Title of Activity** Task Order # 3-0011-KPMG: Small Scale Privatization in Ukraine

**Country of Performance** Ukraine

**Period of Performance** August 4 - December 22, 1993

**Brief Overview of Scope of Work, Technical Approach and Methodologies Used**

The task order was designed to develop innovative methods to stimulate privatization of retail commercial enterprises in the city of Nikolaev, Ukraine. The program was formulated and implemented on the local level as a test case to attempt to improve the effectiveness of the national legal framework for small-scale privatization in Ukraine.

The activities of the team were divided into four separate areas:

- ◆ Development of a legal, regulatory, and administrative framework
  - ◇ Team worked with the City Fund and with the Legislative Working Group on Privatization, an executive-legislative council given most legal power over privatization in the city
  - ◇ The goal was to provide a set of local laws to activate the privatization process while remaining consistent with national law, which was a pre-condition of the project.
- ◆ Direct outreach to enterprises to stimulate privatization and demonopolization
  - ◇ Effort focused on the directors of small enterprises to stimulate them to enter the privatization process, consisting of meetings to discuss their rights and opportunities in the privatization process. Sessions were instrumental in development of a privatization pipeline.
  - ◇ A detailed survey of small enterprises, which indicated general support for privatization.
- ◆ Technical assistance to Fund to prepare for first auction and increase efficiency of all aspects of privatization process
  - ◇ Direct liaison with the Fund and the legislative groups that oversee it to prepare for the first auction, which resulted in the sale of all 11 service establishments offered
  - ◇ Improvement in the Fund's technical capabilities through procedural innovations
  - ◇ The privatization of nine other objects through tender or buy-out.
  - ◇ Streamlining administrative procedures of the Fund.

- ◆ Public education and public relations to build support for the small-scale privatization process
  - ◇ A wide-ranging and concerted public education and public relations campaign through:
    - public opinion poll
    - newspaper articles and interviews
    - television appearances
    - press conferences

### **Contributing Staff Members**

Xavier Jordan, Boris Cooper, William Maggs, Susan Nolen, Caryn Young, Jeffrey Regen, Marion LeBlanc, Angela Crooks

Subcontractors:      Burson-Marsteller  
                                 Katherine Krupka  
                                 Squire Sanders  
                                 Michael Silverman

### **Accomplishments of Task**

- ◆ The four laws drafted and adopted by the Nikolaev City Council stimulated and streamlined the small-scale privatization process by including a package of incentives for enterprises to privatize.
- ◆ The legal measures and innovations have been thoroughly scrutinized by legal officials and appear to be allowable under law. In addition, these laws make the privatization process work more efficiently, motivating workers to privatize, help create conditions for the future development of a commercial real estate market when national legislation allows it.
- ◆ Auction of 11 small-scale enterprises was one of the largest conducted in Ukraine up to that time; all enterprises were sold to private owners. Most significant was the variety of the buyers.
- ◆ Prior to team arrival in Nikolaev, nine objects were privatized or in the privatization process; by 1/31/94, 60 objects were privatized or had entered the process. Much of this success can be attributed to the creation of a privatization pipeline.
- ◆ In Odessa, key objects of unfinished construction were sold in auction or tender.
- ◆ The public's understanding of privatization and the development of a private commercial sector in the city was significantly increased.

## **Deliverables**

Anticipated results of the Task Order included the following:

- ◆ Selling freeholds would:
  - ◇ Eliminate the need to establish a lease zoning plan at the start of the process;
  - ◇ Create an environment more conducive for future development of mortgage banking markets
  - ◇ Create a constituency of new owners, thereby reducing opposition from existing leaseholders
- ◆ An effective public relations campaign would:
  - ◇ Generate popular support for the process
  - ◇ Ensure dissemination of information vital to the viability of the SSP program
  - ◇ Provide for the education of:
    - the city/regional population on the overall benefits and mechanics of SSP
    - employees, leaseholders and owners on the specific ways in which they may participate in SSP
- ◆ The overall small-scale privatization program will have resulted in a majority of the enterprises in the retail trade, public catering, and consumer service sectors of two major Ukrainian cities having been privatized.
- ◆ Future deregulatory initiatives in wholesale trade, distribution, and common carrier transport will:
  - ◇ Decentralize administrative authority
  - ◇ Introduce competition into the means and sources of supply for privatized small-scale businesses by encouraging open entry for new participants in these sectors
  - ◇ Downsize individual enterprises into more affordable and salable units
  - ◇ Preserve some of the economies of scale enjoyed by large companies

## **Issues, Recommendations, and Unfinished Tasks**

The small-scale privatization process that the team initiated did not prove to be self-sustaining because the Ukrainian parliament placed a moratorium on privatization shortly after the KPMG team left.



**FINAL REPORT**

**Title of Activity** Task Order #4-0012-KPMG: Corporatization in Ukraine

**Country of Performance** Ukraine

**Period of Performance** August 2, 1993 - January 2, 1994

**Brief Overview of Scope of Work, Technical Approach and Methodologies Used**

The goal of the project was to design an effective system of corporatization necessary to legally transform state-owned enterprises preparatory to privatization, to validate the corporatization system. This was to be done by implementing a pilot program whereby a significant group of enterprises would be corporatized quickly and efficiently, and integrating the roll-out of the corporatization system with the roll-out and implementation of the national mass privatization plan. Project tasks were organized into the following divisions:

- ◆ Policy Design
- ◆ Corporatization Process Review
- ◆ Pilot Program Validation
- ◆ Apprenticeship/Skills Transfer

**Technical Approach:**

- ◆ Analyzed existing laws, regulations and policies directly and indirectly affecting corporatization as well as constraints to corporatization;
- ◆ Maintained cooperation and dialogue with Ministry of Economy;
- ◆ Held informal discussions with other international institutions;
- ◆ Examined corporatization laws of other Central and Eastern European countries;
- ◆ Examined linkage between corporatization and privatization;
- ◆ Analyzed responsibilities and authorities to oversee and implement corporatization and privatization.

- ◆ Wrote draft order (and statutes) to approve Model Statutes of an “Open” Joint Stock Company Established by Means of Corporatization of a State-Owned Enterprise drafted.
- ◆ Wrote draft Founder’s Protocol and Resolution of Corporatization.

### **Contributing Staff Members**

Xavier Jordan, Ian Zilberkweit

Subcontractor: Squire, Sanders & Dempsey  
Michael Silverman, Helen Krystalowych

### **Accomplishments of Task**

- ◆ A Corporatization Policy Paper and Recommendations was drafted and submitted to the Ministry of Economy. The recommendations included the following:
  - ◇ Establishing the necessary relationship between corporatization and privatization, which was the ultimate goal of the Presidential Decree “On Corporatization of Enterprises”:
    - That privatization should proceed in accordance with Ukrainian privatization laws and regulations irrespective of completion of the enterprise’s corporatization
    - That a time frame should be established for submission of privatization plans
    - That a system of incentives and sanctions should be put in place
  - ◇ Modifying the Decree to allow the transformation of enterprises into “closed” joint stock companies prior to their privatization
  - ◇ Granting the corporatized entity an exemption from the requirement of an official registration of the company at the time of corporatization, thereby eliminating unnecessary delays and complications
- ◆ Module statutes and corporate documents for state owned enterprises being privatized were drafted.

### **Deliverables**

- ◆ Approximately 50 state-owned enterprises will have been corporatized and, from the legal point of view, organized for immediate privatization. An additional 50-100 corporatizations should be in process.

- ◆ A comprehensive and integrated system of laws, regulations and procedures (and other constitutive documents) will have been drafted and adopted for use with the privatization methods then comprising the national/mass privatization program.
- ◆ A network of regional company registration bureaus will have been established, with a central registration bureau in the capital collating basic enterprise data on enterprises already converted into joint stock companies.

**Issues, Recommendations, and Unfinished Tasks**

- ◆ No pilot corporatization could take place because Ukraine failed to select appropriate enterprises for the group.
- ◆ Lack of Ukrainian responsiveness and integration resulted in a lack of success on this project.

**FINAL REPORT**

**Title of Activity** Task Order #5-0013-KPMG: Public Education in Russia

**Country of Performance** Russia

**Period of Performance** November 1, 1993 - January 31, 1994

**Brief Overview of Scope of Work, Technical Approach and Methodologies Used**

This task order was designed as a preliminary diagnostic for Task Order #11-0039-KPMG: Public Information and Education Program in Russia, Phase II. Please see the Final Report for the aforementioned task order for a comprehensive description of the project.

**Contributing Staff Members**

Subcontractor: Burson-Marsteller

Tim Brosnahan, Elizabeth Haglund, Kay Jordan, Fred Hawrysh, Chris Fisher, Neils Brinkman, Gail Belmuth, Peter Walford, Peter Van de Vegte, Perry Yeatman, Alexander Karpov, Mikel Williams

**Accomplishments of Task**

- ◆ Helped ensure the continuation of the Mass Privatization Program by encouraging and improving broad-based support for privatization and economic reform.
- ◆ Increased redemption rate of vouchers and assisted Russian citizens in making more informed investment choices by using mass communications efforts and targeted multi-disciplined enterprise-specific campaigns.
- ◆ Increased the observance of shareholder rights by educating shareholders about these newly acquired rights and educating managers of newly privatized enterprises on the requirements of good corporate governance.
- ◆ Furthered the development of the private Russian communications industry by hiring, almost exclusively, Russian professionals for all tasks.
- ◆ Worked closely with GKI and RPC on a near daily basis to develop and establish public education and mass information capabilities within each organization. Conducted multiple training seminars for these teams using international experts from throughout the Burson-Marsteller worldwide network.

**Deliverables**

All deliverables were completed.

- ◆ Brochures, articles and press releases produced for national and regional cash auctions, and GKI special events, seminars and press conferences
- ◆ Weekly reports and press clips sent to GKI and USAID
- ◆ Television advertising and programs produced for auctions, funds, special events and profiles with all completed television commercials and programs provided to GKI and USAID
- ◆ Print advertising campaigns with all camera ready copy for print advertisements provided to GKI and USAID
- ◆ Radio advertising campaigns produced for auctions, fund, special events, profiles with all completed radio spots provided to GKI and USAID
- ◆ Collateral materials produced for auctions, funds, special events and profiles
- ◆ Written guidelines for qualitative research and quantitative surveys
- ◆ Written reports of top-line research results
- ◆ Cross-tabs research results
- ◆ Detailed analysis and assessment of final qualitative and quantitative research results
- ◆ Research and strategy presentations to GKI and USAID as requested

**Issues, Recommendations, and Unfinished Tasks**

Due to a lack of progress on the legal framework required to proceed or due to shifting GKI priorities, the contractor did not extensively focus on the issues of restructuring, land reform or secondary markets. General public education and information programming was conducted in each of these areas, but intensive, dedicated campaigns were not undertaken.

**FINAL REPORT**

**Title of Activity** Task Order # 6-0016-KPMG: Kazakhstan Public Education Program I

**Country of Performance** Kazakhstan

**Period of Performance** October 3 - November 15, 1993

**Brief Overview of Scope of Work, Technical Approach and Methodologies Used****I. Assessed existing media and production infrastructure; identified pilot projects.****Identified local media, vendors and professionals to participate in the program.**

Given the overall objective of maximizing local involvement in the public education program and strengthening private sector capabilities, great emphasis was placed on identifying media, vendors, and staff professionals who would grow through the work, remain long-term partners, and assist in training newcomers in future task orders.

- ◆ Met with leaders of national print and broadcast media, researched the number of Kazakhstan citizens reached by each media outlet, and from this determined which gave the best penetration for the best price.
- ◆ Further identified private sector print and broadcast production groups able to produce the materials needed in a public education program, including: television, radio and print advertisements, leaflets, brochures and posters.
- ◆ Hired key local staff with experience in key areas of the work, despite Kazakhstan's limited experience with mass public education and advertising,. These staff were quickly trained and brought fully into our efforts and were a strong foundation on which to build during later phases of the project.

**Reviewed public education programs underway.** As Phase I began, some public education work had been done in support of small-scale privatization programs, but none on mass privatization, and little that reached the broad population. In accordance with GKI priorities and timelines, initial focus was on initiating a strong start for the mass privatization program.

- ◆ During Phase I, recognized the need for broad, grass-roots public education efforts and worked this into the Phase II plan by establishing regional public education offices in key cities outside the capital. The location of these offices was decided upon in coordination with other USAID technical consultants as well as the public education program supporting small-scale privatization.

- ◆ Efforts in the areas of small-scale and trucking privatization were developed in close coordination with the other public education contractor and were designed to broaden the scope and heighten the visibility of projects underway.

**Identified pilot projects and began implementation.** During Phase I, the GKI was rushing to meet deadlines to distribute mass Privatization Investment Coupons (PICs) to Kazakhstan citizens. No public education on mass privatization had previously been done, and people were still unaware of what PICs were and how they could get them. Project team recognized the need for a massive public education campaign to explain to people the process of privatization and the specifics of mass privatization coupons.

- ◆ Launched the first of a three-part informational television ad campaign that explained what PICs were and where they could be picked up and motivated people to claim their coupons.
- ◆ Reinforced messages conveyed in the television ad through print advertising in key national and regional Kazakh and Russian language newspapers.
- ◆ In close cooperation with GKI, also initiated a direct mail campaign reaching 5 million Kazakhstan households with concise one-page flyers carrying information about PICs and how to retrieve them.

## **II. Developed detailed workplan and cost estimates for Phase II.**

Worked closely with USAID, the GKI, and the President's office to determine anticipated program needs and timelines as we prepared the plan for Phase II. With USAID also secured an agreement that allowed for specified amounts of free air time and print space in state-owned media organs from the Kazakhstan government. This was instrumental in preparing accurate cost estimates for Phase II, and minimizing the expense of media buys for advertising campaigns.

## **III. Initiated public opinion research.**

**Conducted benchmark study of public attitudes toward privatization.** In October 1993, worked with Validata Yankelovich to conduct the first representative study of public attitudes, awareness, understanding and expectations of privatization in Kazakhstan. Performed both qualitative (focus-group) and quantitative research conducted through face-to-face interviews.

**Used results in formation of program and messages.** Results of both qualitative and quantitative research were vital in identifying target audiences and messages for use during Phase I and throughout following task orders. Not surprisingly, people's understanding of privatization was very limited.

- ◆ They knew very little about the Kazakhstan government's program, confusing housing coupons with PICs, and the Kazakhstan program with the Russian program. Most people (almost 80%) felt positive toward the *concept* of privatization.
- ◆ The key issue during Phase I therefore was to educate people about the Kazakhstan government program, how they could participate, and what they might expect from it.

**Created monthly public opinion tracking system.** Determined that regular national surveys were needed to track shifts in opinion and understanding and to determine sources of discomfort or misunderstanding of the privatization process. Monthly tracking provided needed feedback both for the GKI as they set policy and for the public education program as we refined messages and tactics to effectively reach the Kazakhstan population.

### **Contributing Staff Members**

Sub-Contractor: Burson-Marsteller

Nicholas Bohane, Kirby Jones, Kyra Chermeteff, Maria Voklenstein, Nick Moore

### **Accomplishments of Task**

- ◆ Identified local media (television, radio, print, staffing, etc) resources capable of participating in the Public Education Program.
- ◆ Wrote the workplan for Phase II.
- ◆ Identified pilot projects and began implementation.
- ◆ Carried out opinion survey to identify attitudes towards privatization.
- ◆ Developed and scheduled the tracking research to provide information for adjusting communications to provide a monthly measure of how the public was reacting to the program.

### **Deliverables**

- ◆ Assessment of existing media and production infrastructure
- ◆ Identification of pilot projects
- ◆ Detailed work plan for Phase II of the project
- ◆ Initiation of public opinion research.



## **Issues, Recommendations, and Unfinished Tasks**

See Task Order # 9-0031-KPMG

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**Title of Activity** Task Order # 7-0025-KPMG: Small Business Development (Condominiums)

**Country of Performance** Russia

**Period of Performance** November 1, 1993 - July 31, 1994

**Brief Overview of Scope of Work, Technical Approach and Methodologies Used****Objective:**

Developed and implemented a local pilot program to initiate creation of a free commercial real estate market in Yaroslavl and eventually across Russia.

**Technical Approach:**

- ◆ Worked with the relevant federal and local bodies to assist in developing and implementing pilot commercial sales, condominium and leasing legislation to create true private ownership and break municipal monopolies
- ◆ Created pilot sites to begin once local legislation was passed
- ◆ Created a transparent freely accessible commercial property registry that included: physical inventory, establishment of programs to track and make public ownership and use of commercial real estate, assistance to city agencies in providing information and a registry structure, negotiation of guarantees of access to the database, and development of low-cost software suitable for use throughout Russia
- ◆ Undertook pilot implementation to gather legal information from the registry; recorded new information in the registry of completed transactions and used registry to identify and gather legal information on an inventory of sites to be used for further implementation of new legislation
- ◆ Created a system that allows commercial ownership of built-in space and implemented a methodology for the sale of built-in space; briefed the local property committee on legislation and assisted with the sales process; created and launched press releases making the public aware of the new legislation and sales price after completed sales; and monitored new owners to identify difficulties and ensure minimum disturbance from city government
- ◆ Implemented local condominium legislation to include chosen pilot sites and consultation with occupants of pilot sites; worked with city officials to ensure

understanding of details of new legislation and administration of maintenance and utility subsidies to condominiums; trained potential maintenance contractors on assembling bids and performing the required work; created and launched press releases on newly implemented legislation and condominium associations; and monitored pilot sites for a month and a half to identify difficulties and make recommendations for changes in the program

- ◆ Created an efficient leasing and subleasing environment by making fundamental improvements through design and lobby for legal changes in the leasing process to reduce the power of municipal institutions and streamline the approval process; created a proper incentive structure; worked to reduce restrictions through legislation
- ◆ Proposed reduction in legislative burdens on entrepreneurs by consolidating agency control for each particular piece of real estate regarding: decisions to rent, the rental amount and payment of maintenance; gave the agency the right to the majority of rent proceeds
- ◆ Advised on reduction of certain restrictions through legislation, such as sublease taxes or profile restrictions imposed on a lease and other restrictions that limit occupants' right of use.

### **Contributing Staff Members**

Subcontractor: Bain and Company, Inc.

James Allen, Christopher Tsakalakis, Mikel Durham, Sergei Savchenko, Alexie Karavaikin, Arkady Vitruk

### **Accomplishments of Task**

- ◆ Five pilot condominium buildings with functioning condominium associations that contain both private and municipal owners and commercial and residential space were established.
- ◆ A manual was established that should help other cities implement real estate reforms; it contains instructions and standard documents that will give city officials the knowledge necessary to replicate the changes accomplished in Yaroslavl, such as:
  - ◇ How to do an inventory of non residential space;
  - ◇ Computer programs and manuals to be used to track space and to create a property registry;
  - ◇ Model lease, sublease, and sales contracts to be used by city governments;
  - ◇ Model legislation and procedures regarding the leasing of built-in space, the sale of built-in space, and the creation of condominiums;
  - ◇ Model condominium charter.

- ◆ A list of proposed regulations that would reduce legislative burdens on small-scale businesses was compiled.
- ◆ An information brochure outlining new condominium legislation was published. Key points covered included:
  - ◇ Practical details
  - ◇ The rights and obligations of government bodies
  - ◇ The rights and obligations of private systems.
- ◆ Municipal procedures regarding the leasing and subleasing of commercial space were drawn up.

**Deliverables**

All deliverables were successfully completed (*see Accomplishments of Task*).

**Issues, Recommendations, and Unfinished Tasks**

None

**FINAL REPORT**

**Title of Activity** Task Order # 8-0030-KPMG: Voucher Auction Management

**Country of Performance** Russia

**Period of Performance** November 1, 1993 - July 31, 1994

**Brief Overview of Scope of Work, Technical Approach and Methodologies Used****Objectives:**

To accelerate the privatization of Russian enterprises and the redemption of vouchers to meet the Government of Russia's stated program completion date of June 30, 1994, and in the process:

- ◆ Ensure that a significant majority of enterprises subject to mandatory privatization within a supported region are successfully auctioned
- ◆ Generate demand for auctions through the establishment of auction centers, the expansion of bid reception networks, and the effective use of public information campaigns
- ◆ Support post auction development in regions to ensure continued public support for the overall privatization program.

**Technical Approach:**

Supervised and maintained 4 regional teams to provide the following technical and financial assistance to existing 22 regions and 2 new regions:

- ◆ Voucher Auction Support
  - ◇ Acted as facilitator among enterprises, local privatization agencies, and other branches of local government on policy and logistics of voucher auctions
  - ◇ Managed pipeline by identifying enterprises that could be privatized, assisted in enterprise preparation, and ensured a continuous supply of companies for voucher and cash auctions
  - ◇ Provided support in financial areas by developing reasonable budgets, overseeing submission of requests for financial aid, advising on financial management (revenue enhancement, cost reduction and cash flow management)

- ◇ Encouraged legal compliance by conducting audits of existing regional legislation and advising GKI on elements where local practices contradicted national legislation
  - ◇ Created auction infrastructure to include setting up facilities, security, computer systems, training of personnel, voucher cancellation, and facilitated negotiations with local institutions to serve as contractors for running voucher auctions
  - ◇ Ensured flow of information about fundamental principles of the privatization program, the auction procedure, the enterprises on sale, and fundamentals of share ownership to the public.
- ◆ **Post Auction Support**
- ◇ Supported programs that disseminated guidelines on conducting shareholders meetings and instituted procedures for proxy voting
  - ◇ Promoted understanding of shareholder rights by developing active shareholder groups
  - ◇ Developed services, standard procedures, and materials for share registries in pilot region
  - ◇ Promoted existing corporate governance training materials to supported regions and conducted seminars in support regions.

Monitored and supported voucher auctions in remaining regions throughout Russian Federation:

- ◆ Kept in regular telephone contact with each region to assess auction infrastructure development, resource requirements, and voucher and cash auction progress
- ◆ Provided legal advice to regions through a hotline on both voucher auctions and post privatization legislation
- ◆ Updated GKI auction database on a regular basis
- ◆ Provided quick response units to GKI to respond to analytical or troubleshooting needs in any region.

Continued management of VASG and training of key personnel to ensure its long-term viability as an independent unit with little or no Western management. Set up financial management procedures, established legal structure, and identified long-term financing.

### **Contributing Staff Members**

Subcontractor: Bain & Company, Inc.

James Allen, Steven Tallman, Alan Sutherland, Tanya Khotin, Benjamin Burman,  
Daniel Muth

## Accomplishments of Task

### Phase I:

- ◆ Created Voucher Auction Support Group (VASG) and set up organizational structure
- ◆ Developed Voucher Auction Manual based on successful auction practices
- ◆ Created voucher auction database
- ◆ Piloted regional assistance in five regions

### Phase II:

- ◆ Voucher Auctions
  - ◇ Four regional teams provided technical and financial assistance to an additional 24 regions
  - ◇ Resulted in auctioning and privatization of 3,653 companies (representing 59.1 billion rubles of charter capital sold) and the collection of 22.7 million vouchers
  - ◇ Monitored and supported voucher auctions in the remaining regions throughout Russia
- ◆ Other Privatization
  - ◇ With VASG, hosted three high ranking privatization delegations from Armenia, Georgia, and Ukraine
  - ◇ Responded to GKI/RPC requests for analysis such as Cash Auction Analysis, Investment Tenders, and Privatization Progress Analysis
- ◆ Post-Privatization Development
  - ◇ Supported post-auction development in regions to ensure continued public support for the overall privatization program by publishing a manual designed to answer the questions of enterprise directors, piloting the development of a community registrar in the Murmansk Oblast, conducting seminars to discuss post-privatized issues, monitoring the development of secondary market institutions in supported regions
- ◆ Regional Disbursements
  - ◇ Developed and managed financial advice and monetary assistance to 27 regions in excess of one billion rubles by developing reasonable budgets, overseeing submission of requests for financial aid, providing advice on financial management, and providing direct financial aid through the central GKI
- ◆ Institution Building
  - ◇ Designed and created the VASG organization, a team of Russian voucher auction experts, to support both the regional and centralized voucher activities
  - ◇ Transitioned VASG to direct RPC management in order to roll out the regional implementation of privatization and reform projects after pilots were completed by various Western advisors

**Deliverables**

*See Accomplishments of Task*

**Issues, Recommendations, and Unfinished Tasks**

None



**FINAL REPORT**

**Title of Activity** Task Order # 9-0031-KPMG: Kazakhstan Public Education Program II

**Country of Performance** Kazakhstan

**Period of Performance** November 16, 1993 - September 15, 1995

**Brief Overview of Scope of Work, Technical Approach and Methodologies Used****I. Overview and Scope of Work**

Our overall objective was to provide the public with information necessary to support Kazakhstan's privatization program, by helping to ensure that it is transparent, understandable to the majority of citizens, and successful in transferring this former socialist nation's productive enterprises from government to private ownership. To attain these goals we maintain a national office in Almaty, staffed by five expatriates and 16 locally hired experts in communications. Outside the capital we maintain six regional center offices, each headed by an expatriate plus local support staff, plus an active presence in 13 other major provincial cities. Outside Almaty, local hires total about 50 professionals and support personnel. In addition, we retain a host of specialists on a project basis -- such as polling companies, publishing houses, advertising agencies, and other communications experts -- who help core staffs to achieve these objectives.

- ◆ The expected results fall into two broad categories. The first is the specific support of Small-Scale Privatization -- which is tasked to sell enterprises employing fewer than 200 people -- and the Mass Privatization Program, which seeks to sell the shares of enterprises employing from 200 to 5000 people. The overall targets for each program are measured in the number of enterprises sold. The actual numbers to be sold are determined by the host country and technical advisers. Our job is to ensure enough publicity to provide the necessary public support for both programs to succeed.
- ◆ The second category blankets the broad area of public information. Here the goals are to educate the public to the processes and benefits of a market economy. In this realm efforts range from such specifics as journalistic training for better coverage of business to illuminate fundamental economic principles and benefits, for example, better quality, selection and prices as a result of competition. The expected result of this broad campaign is continuing popular support for the process of privatization in the face of the economic hardships that the transformation triggers.

## II. Technical Approach/Methodologies Used

- ◆ Advertising Campaigns
  - ◇ Creation and airing of national television ads in support of mass privatization (urging the investment of Privatization Investment Coupons--PICs)
  - ◇ Creation and nationwide placement of print ads in support of mass privatization.
  - ◇ Creation and national airing of small-scale success stories
  - ◇ Creation of advertising support for small-scale privatization auctions in each Oblast. Includes print, TV, radio, posters, and loudspeaker trucks
- ◆ Publications
  - ◇ Printing of 25,000 volumes on privatization legislation, in Russian, to provide an accessible legislative basis for privatization process
  - ◇ Printing of 5 million pocket calendars to serve as daily reminders to turn in private investment coupons
  - ◇ Publication of booklet on secondary markets to introduce capital markets concepts to members of Parliament
- ◆ Polling
  - ◇ Completion of first poll on effects of mass privatization
  - ◇ Monthly tracking surveys of public opinion towards privatization
  - ◇ Training of Kazakhstan's opinion polling sector to help quantify local opinion research and raise it to international levels
- ◆ Training
  - ◇ Training seminar for regional journalists to improve business and financial reporting
  - ◇ Training of local hires in TV programming, reporting and editing skills to raise nation's general skill level in this key media
  - ◇ National seminar for local hires of consortium USAID on consensus building to help local hires identify influential individuals and develop grass roots support for democratic process
- ◆ Broadcast Productions
  - ◇ Filming of 3 half-hour segments of a social marketing television series that supports the concept of privatization
  - ◇ Support of Business Class--a weekly, half-hour business news program, that offers the first-ever objective coverage of business news and privatization developments
  - ◇ Creation and broadcasting in each of 19 different cities individual 15-30 minute television shows on privatization

## **Contributing Staff Members**

### **Subcontractor: Burson-Marsteller**

Kirby Jones, Nicholas Bohane, George Nikolaieff, Katherine Krupka, Melody Townsel, Duncan Robinson, Gail Belmuth, M. Bevins, Alan Anderson, Lynn Marie Bell, Joe Jereb, Richard Longstaff, Meg Coker, Mindy Reiser, Kristen Staples, S. Rynecki, Deborah Plumstead, Naya Kenman, Mike Williams, Steven Einhorn, Kyra Cheremeteff, Terry Hill, Mary McCue, Christine Badra, Kunwar Sinha

## **Accomplishments of Task**

- ◆ A 21-percentage-point rise in positive attitudes toward the concept of privatization from 36% in April 1994 to 57% in June 1995
- ◆ A 16-percentage-point rise in preference for a free-market economy from 24% in April 1994 to 40% in April 1995
- ◆ A 12-percentage-point rise in positive attitudes toward small-scale privatization from 35% in April 1994 to 47% in June 1995
- ◆ A June 1995 polling result indicating 69% believe private ownership is at least somewhat necessary to create a healthy economy for Kazakhstan

In addition to substantial attitudinal shifts, the team created a wide range of educational deliverables, including but not limited to the following:

- ◆ Production and nationwide distribution of 8.5 million "information sheets" detailing various elements of the mass and small-scale privatization programs
- ◆ Development and focus-group vetting of eight advertising story-boards set for production in 3 Q 1995
- ◆ Daily press releases, including a weekly release dedicated to developments/trading activity on the fledgling Central Asian Stock Exchange (CASE)
- ◆ Development of a range of information/marketing materials for CASE
- ◆ Development/printing of "Series 7" broker-training materials in liaison with Intrados
- ◆ Development/placement of all small-scale auction support advertising
- ◆ Regular press conferences on key market reform developments, including the launch of CASE training

Finally, the team's efforts to reduce program costs to maximum USAID's limited funds for Central Asia produced substantial savings during the quarter. Second-quarter auctions aimed at curbing costs and their results include:

- ◆ The development of an in-house creative unit charged with all advertising and publication design/production -- allowing the team to slash out-of-house production and design costs while improving the quality of AID-funded deliverables

- ◆ The renegotiation downward of all state media air time contracts, resulting in an overall savings of at least 40% of the original Phase III media budget
- ◆ An agreement by the GKI to handle distribution for key educational deliverables as well as fund the marketing of key objects set for auction.

### **Deliverables**

See Accomplishments of Task/Deliverables

### **Issues, Recommendations, and Unfinished Tasks**

- ◆ Polling data has shown that when educated to the basics of a market economy and associated privatization efforts, a significant share of the Kazak population supports privatization -- and reform -- in general. Therefore, Burson-Marsteller feels the continuation of mass education of the population about privatization is key the Kazakhstan's reformation into a market economy.
- ◆ Due to Kazakhstan's history as a communist state, there is little respect for the rule of law. Many Kazakss feel the only way to 'get ahead' is to partake in extra-legal activity. The average Kazak does not understand the benefit of a society governed by an accepted and evenly enforced rule of law. Therefore, Burson-Marsteller also feels legal reform will prove integral to Kazakhstan's rebirth.
- ◆ Significant components of the government-relations segment of the task order could not be completed due to the dissolution of the Kazakhstan parliament. While Burson did compile a limited database of government officials and bureaucrats to support the distribution of the government privatization newsletter developed by the project team during this task order, it was unable to achieve significant impact with government officials across a broad scale due to the absence of an elected leadership.
- ◆ Upon conclusion of the task order, Burson-Marsteller facilitated the smooth transition to another public education contractor. This helped ensure programs created and managed by Burson-Marsteller will smoothly continue into the future.

**FINAL REPORT**

**Title of Activity** Task Order # 10-0033-KPMG: Small Scale Privatization in Ukraine - Part II

**Country of Performance** Ukraine

**Period of Performance** January 3, 1994 - February 5, 1994

**Brief Overview of Scope of Work, Technical Approach and Methodologies Used**

Continuation of Task 3-0011-KPMG in which we constructed a small-scale privatization program. See Final Report of the aforementioned Task Order for a description of the project.

**Contributing Staff Members**

Xavier Jordan, Boris Cooper, William Maggs, Susan Nolen, Caryn Young, Jeffrey Regen, Marion LeBlanc, Angela Crooks

Subcontractors: Burson-Marsteller  
Katherine Krupka  
Squire Sanders  
Michael Silverman

**Accomplishments of Task**

- ◆ The four laws that were drafted and adopted by the Nikolaev City Council stimulated and streamlined the small-scale privatization process by including a package of incentives for enterprises to privatize.
- ◆ The legal measures and innovations have been thoroughly scrutinized by legal officials and appear to be allowable under law. In addition, these laws make the privatization process work more efficiently; they encourage workers to privatize by helping create conditions for the future development of a commercial real estate market when national legislation allows it.
- ◆ Auction of 11 small-scale enterprises was one of the largest conducted in Ukraine up to that time; all enterprises were successfully sold off to private owners. Most significant was the variety of the buyers.
- ◆ Prior to team arrival in Nikolaev, nine objects were privatized or in the privatization process; by 1/31/94, 60 objects were privatized or had entered the process. Much of this success can be attributed to the creation of a privatization pipeline.

- ◆ In Odessa, key objects of unfinished construction were sold in auction or tender.
- ◆ The public's understanding of privatization and the development of a private commercial sector in the city was significantly increased.

### **Deliverables**

The approach of Task Order #3-0011-KPMG will be revised with the following objectives in mind:

- ◆ To accelerate the process of small-scale privatization and facilitate the development of a market in commercial real estate by selling state-owned (non-leased) enterprises and enterprises with expired leases;
- ◆ To develop, test and implement -- on a pilot basis -- a streamlined, cost-effective, transparent, simple market-based methodology of small-scale privatization of retail shops through cash auctions;
- ◆ To standardize processes for wide-scale implementation.

### **Issues, Recommendations, and Unfinished Tasks**

The small-scale privatization process that the team initiated did not prove to be self-sustaining because the Ukrainian parliament placed a moratorium on privatization shortly after the KPMG teams left.

**FINAL REPORT**

**Title of Activity** Task Order # 11-0039-KPMG: Public Information and Education Campaign

**Country of Performance** Russia

**Period of Performance** October 1, 1994 - February 28, 1995

**Brief Overview of Scope of Work, Technical Approach and Methodologies Used**

Burson-Marsteller was hired to generate a broad understanding of, and support of new areas of privatization. This task order supported the State Committee for the Management of State Property's (GKI) request to continue the development of public information advertising, television programming, newspaper articles and special events that serve to educate and increase support among the Russian public for the mass privatization program. The main focus of the nationwide television programming was to promote privatization as the basis of economic reform.

Burson-Marsteller had the following program objectives:

- ◆ To encourage broad-based support for privatization and economic reform in general
- ◆ To educate Russian citizens in the use of their vouchers and promote deeper understanding of post-privatization issues and to encourage those who had not yet used their vouchers to participate in the process before it ended
- ◆ To inform Russian citizens about the Russian land privatization program, with the aim of strengthening support for the land reform effort

Burson-Marsteller implemented a range of communications media to support all aspects of understanding market reform (bankruptcy, capital markets, corporate governance), national media relations, spokesperson development, constituency development, opinion research and tracking, advocate image building, information and educational materials development, issues management, special events, financial public relations, and the development of television and radio programming.

**Contributing Staff Members**

Subcontractor: Burson-Marsteller

Chris Fisher, Keith Sharp, Perry Yeatman, Kay Jordan, Richard Thompson, Peter Walford, Alexander Karpov, Tim Brosnahan, Fred Hawyrsh, Kirby Jones

## **Accomplishments of Task**

### **1. Corporate Governance/Shareholder Rights**

- ◆ Held focus group with the trade unions of Fosforit Co. in Kengisep. The work was carried out by ELF fund within the framework of trade union survey.
- ◆ Moscow SRC - BM & Moscow SRC staffers met with the co-chairman of the Association for Shareholders & Investors Protection, Y. Feden.
- ◆ Work with Trade Unions - At request of the Commission prepared recommendation/analysis on Independent Mining Union.
- ◆ Dispatched 2,500 copies of the leaflets & brochures to 10 of the regional SRCs.
- ◆ Met with individual investors from Voronezh, who came to a press conference to cover issues of shareholder rights protection on February 3. Also met with union activist from Micro Machine Moscow Factory regarding cooperation with the Moscow SRC.
- ◆ Held a conference on February 9 for those interested in becoming more active shareholders. During the event, there were more than 90 presentations by VIFs, enterprises, SRCs. The media was also well-represented.
- ◆ Educational materials - Completed printing of 100,000 leaflets on bankruptcy and stock market. After receiving Arcade's approval, began printing shareholder rights brochure.
- ◆ Training session for role-play trainers - Held role-play training session at the Red Pakhra lodge. The event was well-attended, with representatives coming from universities in Moscow, St. Petersburg, Ekaterinburg, Saratov, Michurinsk, Cherepovets and Perm. Representatives from SRCs, VIFs, and Vologda Insolvency Agency also attended. The training covered the shareholder meeting role-play, as well as a new role-play on bankruptcy.
- ◆ Business computer game - A group of programmers, coordinated by Lovyagin, finalized 100 Steps business computer game for IBM. Russian Education Ministry confirmed receipt of 700 copies of the computer game. It rated the program highly and agreed to disseminate the copies nationwide. We will receive a list of recipient schools upon completion.

### ***Shareholder Rights Hot Line***

- ◆ Handled about 70 calls daily. Calls were about VIFs, including: Oil-Diamond-Invest, RPB, Privatization Program, Veteran-Invest, Alfa-Capital, Zhiltevarisch, Partnership,



Sakha-Invest, Myth, Dershava, Moscow Realty, LLD, Interregional, Peter the Great; and about corporations, such as Olbi-Diplomat, Tokur-Gold, Hermes-Soyuz, Gazprom, AVVA, Digo and different financial companies.

◆ Fielded shareholder questions on the following areas:

- ◇ Keeping a shareholder register
- ◇ Selling shares in closed-end corporation
- ◇ New issue
- ◇ Vote by proxy at the shareholder meeting
- ◇ Cumulative vote at the shareholder meeting
- ◇ Division of authorized capital
- ◇ Closed share subscription.

*Cash Privatization Hotline*

◆ Hotline averaged 125 calls a day on the following types of questions:

- ◇ When and where will auctions of Northern Rare Metals, Ees, Russia, NILIT and Rostelcom take place? What are the conditions?
- ◇ How does one use receipt form #31, received in exchange for vouchers in Moscow?
- ◇ Will shares in the enterprises be put up for auction or will they be distributed otherwise?
- ◇ Who will conduct cash auctions of Moscow enterprises and where?
- ◇ What trade enterprises will go for cash auction in Gelnzhik?
- ◇ What small metal repair enterprises are put up for auction?

## **2. Regional Communications**

*Routine News Vehicles/Outreach*

◆ Distributed news packages #36 to #83.

◆ Monitored articles based on our materials in the following regional newspapers:

New Style (Saratov)  
Share (Chelyabinsk)  
Tyumen Pravda  
Business Siberia  
Tyumen Izvestia  
Tomsk Vedomosti  
A&F Enisei (Krasnoyarsk)  
Own Voice (Krasnoyarsk)  
Youth of Siberia (Novosibirsk).  
Business in Volga Region (Volograd)  
Business News (Yaroslavl)  
Own Voice (Krasnoyarsk)

Our Time (Rostov-on-Don) - 1 item

*Shareholder Rights*

Distributed article on shareholder rights #22 to regional KIs and PFs, as well as to regional media outlets.

*Capital Markets/Monetary Privatization*

- ◆ Prepared Regional Press Features Digest #10, comprising four sections: stock market, investments, money privatization and bankruptcy for KI and regional media distribution.
- ◆ Prepared Regional Press Features Digest #11, comprising four sections: stock market, investments, money privatization and bankruptcy for regional media distribution.

*Developing a Dialogue*

- ◆ Examined and evaluated results of the regional New Economics conference for journalists and national conference for regional KI and PF press-secretaries.
- ◆ Drafting replies to shareholders corresponding to Izvestia newspaper in response to the hotline feature. Continued preparing Q&A bulletin on liquidation of corporation and shareholder rights.
- ◆ Forwarded replies to shareholders in the following VIFs: Moscow Realty, MMM-Invest, Titul, Partnership, Eximer-Invest, Soyuz. Provided counsel in writing to shareholders.

**3. Information Services**

*Routine News Flashes/Information Reports*

- ◆ Continued survey of central and regional media demand for the Economic News Flashes. Reached agreement to distribute the questionnaire to journalists.
- ◆ Issued daily Privatization News Flashes, featuring the following topics:
  - ◇ Economic reform
  - ◇ Securities
  - ◇ Investment
  - ◇ Economic recovery via bankruptcy
  - ◇ Entrepreneurship
  - ◇ Shareholder rights
  - ◇ Foreign media coverage of Russian economic reform.

- ◆ Prepared a weekly combined table on market value of Shares in privatized enterprises and returns from voucher redemption in shares in privatized enterprises via voucher auctions.
- ◆ Prepared a weekly table value of shares in privatized enterprises and returns from voucher redemption in shares through closed subscription.
- ◆ Provided data, as requested to Burson-Marsteller project groups.
- ◆ Prepared daily foreign media reviews covering economic reform issues for GKI.
- ◆ Together with TV and radio group, drafted proposals to secure data supply for TV program on economic results in 1994.

#### *Data Bases Update*

- ◆ Began developing assignments to create data bases software of:
  - ◇ Stock companies
  - ◇ Largest VIFs
  - ◇ Most typical Q&As on shareholders.
- ◆ Conducted market survey of existing Russian data bases for sale. Provided complete list to CER. Awaiting feedback on their interest and simultaneously compiling price list for the same.

#### *Library*

Drafted proposals to purchase data bases of industrial enterprises, of legislation, and storage of books on economics.

#### *Developing a Dialogue*

- ◆ Drafted 20 replies to letters of shareholders in the following VIFs: MMM-Invest, Oil-Diamond-Invest, and Soyuz. Forwarded request to Soyuz. Forwarded request to Soyuz VIF to provide Moscow SRC with data on its activities and offer of cooperation. Drafted letters with legal advice on VIFs and stock companies.
- ◆ Received a letter from shareholders in Glucose Syrup Factory (Efremov, Tula oblast), complaining on infringement on their rights by the Board of Directors and applying for protection (203 signatures in total). Forwarded the letter to Capital Markets bulletin, which resulted in immediate publishing in this bulletin. Began drafting official requests to the Tula Prosecution Office, Tula KI, and Tula Anti Monopoly Authority to investigate this case.
- ◆ Drafted ten replies to letters of shareholders in the following VIFs: LLD-Fund, Titul, First Voucher, and Unity NFK. Drafted five letters with legal advice on VIFs and stock companies.

- ◆ Prepared five legal counsel replies to shareholders' letters resulting from the hot line Q&A columns publication.
- ◆ Received response from the RF tax service, which included the official explanation of the most complicated issues of taxation. This will be used to help draft replies for interested public.

#### *SRC Hot Line*

- ◆ Handled up to 70 calls per day via the shareholder rights hot line. The calls were about VIFs, including: MMM-Invest, Derzhava, National Voucher Investment Fund, Soyuz, Moscow Realty, Oil-Diamond-Invest, trade Halls, Privat-Invest, Alfa Capital, Hermes, Titul, Sakha-Invest; about stock companies: Olbi-Diplomat, Tokur-Gold, AVVA, Gazprom, NIPEK; about financial companies: Hermes-Souyz, Tibet; Telemarket, Chara, Unity NFK, Khopyor-Invest, Doka-Khlebov, MMM, Tibet.
- ◆ Fielded questions on the following:
  - ◇ Closed subscription to shares
  - ◇ Keeping shareholders register
  - ◇ Holding shareholder meetings
  - ◇ Privatization of enterprises
  - ◇ Paying dividends
  - ◇ Trading shares in JSCs and VIFs
  - ◇ Labor relations in JSC
  - ◇ Amending the JSC Articles of Association
  - ◇ Dismissal from the closed-end stock company
  - ◇ New registration of the stock companies
  - ◇ Closing down the stock company
  - ◇ Distribution of shares within closed subscriptions
  - ◇ Purchase of shares by the stock company.

#### *Privatization Hot line*

- ◆ Hot line mounted to about 110 calls per day. Registered the following questions:
  - ◇ How can one participate in cash auction?
  - ◇ What enterprises in fuel production industries are coming up for cash auctions?
  - ◇ Is it possible to buy separate shares via auction?
  - ◇ What is the initial auction share price in Tuapse Oil Production Works?
  - ◇ When will Sibport be auctioned off?

#### *Monetary Privatization*

Prepared routine lay-out of public cash auctions table. Tables provided data on cash auctions, running in: Moscow, Orenburg, Chelyabinsk, Kemerovo, Tyumen, Tambov, Perm, Volgograd, Vologda oblasts, and Krasnodar area from January 20 through January 27, 1995. Number of enterprises to be auctioned continued to grow. Many of these

enterprises have gone through voucher auctions under voucher privatization. Provided tables to PR and regional groups for central and regional media distribution.

#### **4. Media Relations**

##### *Routine News Vehicles*

- ◆ Prepared and distributed to central media Privatization News Flashes for newspapers and magazines. Monitored News Flash-based articles in:
  - ◇ Business-Fact (AEN)
  - ◇ AEN
  - ◇ Trade Newspaper
  - ◇ Business Express
  - ◇ Capital Markets
  - ◇ Postfactum
- ◆ Completed GKI Annual Report, comprising the following main chapters:
  - ◇ Goals and Objectives of Voucher Privatization;
  - ◇ The Role of Local KIs and Pfs in Implementing Voucher Redemption Program
  - ◇ Stock Companies at Auctions
  - ◇ Shareholder as New Type of Citizens
  - ◇ Investment Fund as the Most Important Stock Market Institution
  - ◇ Other Types of Activities: Shareholder Rights
  - ◇ Foreign Investors
  - ◇ Voucher Privatization: Track of Record

##### *Bankruptcy*

- ◆ Attended the SEC session. Prepared items for the News for Newspapers and Magazines bulletin and an items for Business MN newspaper.
- ◆ Completed initial preparations for educational conference for journalists on bankruptcy issues, set for middle January.
- ◆ Monitored articles on bankruptcy from the bulletin in Capital Markets, entitled Recipe to Avoid Bankruptcy and Bankruptcy Endangers One from Ten Russian Enterprises.
- ◆ Distributed media brochure "Ten Tips for an Initial Investor." This contains general impartial advice, helping an average person to find his/her way in the stock market. Held tentative talks with several media outlets to arrange publishing of the brochure. Arranged first publishing in Business Express.

##### *Life and Purse Supplement*

- ◆ Together with S. Lovyagin, prepared comic strip about what a pyramid is. Held detailed discussion and developed the concept with P&L editors.

- ◆ Together with Information Service group, made new entries in the table "How Much is Voucher Worth."

#### *Monetary Privatization/Stock Market*

- ◆ Placed articles on the negative impact of Short-term Government Bonds on the stock market (drawing from government commission data), and on attracting American investors in Kama Car Maker Plant.
- ◆ Analyzed stance on the securities markets in Moscow and other cities. Drafted an article and placed it in the Privatization bulletin. It revealed that low stock price in even very attractive enterprises hinges on lack of proficiency of blocks, while the demand is for small and medium blocks. Timing of auctions is also unfavorable,;e.g., many auctions are held during Christmas and New Year vacations, when investors take leave.
- ◆ Completed brochure on stock market.
- ◆ Sociological survey of Khopyor proved that the word "share" arises no enthusiasm among several investors, for their experience shows that share does not provide quick and large earnings. Many financial companies have noticed the trend and avoid using this word, employing various substitutes.

#### *Success Stories*

Stock market expert from MR group arranged media trips to Central region, December 20-25. Journalists from Business-MN, Vek, and Financial Izvestia participated. They visited several key regional enterprises, met Oryol KI authorities and regional administration to discuss wide range of issues, from success and problems of certain enterprises and industries to stock market development and attracting investment to the region.

#### **5. Research/Production/Special Projects**

- ◆ Received report from Elf Labor Research Foundation, incorporating conclusions and recommendations, pertaining to pilot study of the Russian trade unions structure and possible cooperation to improve shareholder rights.
- ◆ Conducted final presentation of results of the survey held by Moscow Consultant Center in January-February 1995. The research was on the "Attitudes of Russian Citizens to Market Economy. Future Under New Economy: Issues, Prospects, Opportunities." We also received the results of the analysis of listener letters to Third Half radio program.

- ◆ December 28, together with ITAR-TASS, carried out shooting of We and Reform program, 2nd channel
- ◆ Change, special issue, Annual Results of Privatization, Mayak.
- ◆ Mine and Ours, Radio - 1, Results of Privatization

### **Deliverables**

- ◆ Brochures, articles, press releases, background materials, training materials and similar print, video and audio materials used in any aspect of the program
- ◆ Weekly activity reports and press clipping reports
- ◆ All television advertisements used to support any aspect of the program
- ◆ Video or audio tapes of all television and radio programs produced and aired on national or regional television and radio stations
- ◆ Written guidelines/contractual arrangements for the performance of opinion research and strategic analysis
- ◆ Written research results, including top-line analysis; detailed cross-tabulations and detailed analysis of results; presentations to GKI and USAID on research results will be made as requested.

### **By program area:**

- ◆ National and regional auction support
- ◆ Corporate Governance/Shareholder rights
- ◆ Investment fund Shareholder Education
- ◆ Secondary Markets Education
- ◆ Land Privatization
- ◆ Post Privatization Assistance
- ◆ Spokespersons
- ◆ Success Stories/"Good News"
- ◆ General Media Relations
- ◆ Regional Activities
- ◆ Advertising
- ◆ Research

### **Issues, Recommendations, and Unfinished Tasks**

Any unfinished issues will be addressed in the Burson-Marsteller new task order under Omnibus II, which is a continuation of this work.

Jonathan Bulkley, Alex Berg, Stanley Shell, Susanne Trimbath, Jean Spears, Vasili Sidorov, Ali Rammal, Sandra Nickerson, Randy Bracey, Karin West, Clifton Bean, Jeffrey Regen, Kathy Bristow, Susan Nolen, Geoffrey O'Brien, Greg McCaffrey

Subcontractors:       Khan & Hill  
                              Scott Richardson

## Accomplishments of Task

### Overview:

KPMG advisors established the following:

- ◆ *Market guidelines* were created for clearing and settlement organizations in Russia. Many of these recommendations were later put in place as decrees and regulations
- ◆ *St. Petersburg CSO*. A CSO was established with KPMG / USAID support in St. Petersburg (the "Settlement Depository Center", or SDC). Procedures were developed, staff were hired, software was developed, and hardware was procured. The SDC is one of the first Russian self-regulatory organizations, meaning that it is owned and operated by its members. The St. Petersburg CSO is now operational, and is able to clear and settle trades on a book-entry basis
- ◆ The St. Petersburg CSO has expanded beyond its original boundaries:
  - ◇ The city of St. Petersburg used the USAID created CSO to clear and settle municipal bond trading
  - ◇ The St. Petersburg CSO now offers a re-registration service to its members
  - ◇ 20 local SDC staff and KPMG local employees who worked under the direction of the KPMG technical team are now maintaining the SDC system and continue the marketing effort to the St. Petersburg financial community
- ◆ *Vladivostok CSO*. USAID assistance greatly expanded the capabilities of the CSO in Vladivostok. This CSO, the Primorski Central Depository (PCD), is attached to the Vladivostok International Stock Exchange, the most successful stock exchange in Russia. As a result of the USAID sponsored technical



assistance, the PCD provide the following services:

- ◇ Greatly increased capacity
- ◇ funds settlement
- ◇ trade netting
- ◇ automatic trade input from the Exchange
- ◇ pledging
- ◇ Corporate actions, including dividend and other distributions

#### **Details:**

Since the initiation of the task order on May 1, 1994, work in each city and at each institution has progressed on essentially separate tracks, according to their separate priorities. Vladivostok is currently the leading regional depository in Russia, and carries out full book-entry, depository operations, including funds settlement on a pilot basis. St. Petersburg, while hindered by the problems of registrars and the lack of acceptance of nominee ownership, is on the verge of beginning full depository and 'clearinghouse' operations.

#### Vladivostok

The Vladivostok International Stock Exchange (VISE) / Primorski Central Depository (PCD) is now Russia's largest, most active, and most viable stock exchange and depository system.

**VISE.** The Vladivostok International Stock Exchange (VISE) was established and licensed in 1992 to serve the financial community of the Russian Far East. Trading is based on the order-match system in use at the Australian Stock Exchange. The exchange publishes prices quoted for listed stocks on a weekly basis.

**PCD.** The Primorskiy Central Depository (PCD) is an independent depository institution, working in tandem with the exchange to provide custody and trade settlement services for its members. The PCD currently settles trades on a book-entry basis.

**History.** Trading in securities began in November, 1992. There are currently 83 investment institutions, brokerage houses, and banks accredited to trade on the VISE. In addition to local firms, participants from Nakhodka, Khabarovsk, Magadan, and Moscow have joined the exchange via on-line access. The trading system is being adapted to accommodate "remote users" in other cities in the Russian Far East, Siberia, and Western Russia.

**Listing.** Listing requirements are currently very liberal. Some 350 privatized enterprises are listed on the exchange, and are on deposit at the depository; most but not all listed issues are Far Eastern and Siberian enterprises. Trading functions are designed for both

primary and secondary markets. All enterprises whose shares are traded on the VISE have submitted documentation verifying their participation in the privatization process and have registered their stock issue with the Ministry of Finance or one of its local bureaus.

**Regulation and Compliance.** The VISE and the PCD are self-regulatory organizations. Brokers applying for membership to the VISE and/or the PCD must sign standardized agreements specifying the rules, privileges and obligations for participants. Settlement and other disputes are resolved by an Arbitration Commission. The burden of proof of error lies with the broker who wishes to cancel a trade matched at the exchange.

The project in Vladivostok got underway in June 1994. Assistance has focused on organizational development and support to the PCD's systems development. Specific accomplishments include:

- ◆ Work with the PCD to develop procedures for full CSO guideline functionality, and to institute all required features on a pilot basis
- ◆ Advice to senior management to ensure a long-term strategy to carry the PCD and the VISE to a state of long-term viability
- ◆ Work with the senior management of the PCD to create a commitment to the concept of the Depository as a customer-, member-, and market-driven organization, more responsive to member's concerns, and eager to adapt to the needs of the market
- ◆ The development of an organizational structure for the PCD, including recruiting and training plans
- ◆ Work with the VISE/PCD systems development group to develop standard policies and procedures for software development, laying the foundation for efficient future modifications and enhancements to the systems. Hardware and software were also procured, to increase the PCD's capacity.

### St. Petersburg

In St. Petersburg, the Settlement and Depository Center (SDC) has made strong progress over the past year. St. Petersburg is a unique city within the Russian Federation. The trading community is small in comparison to Moscow, yet very active and recognizable to foreign investors. St. Petersburg's close-knit community is conducive to progressive pilot programs which would be much more difficult to implement in other regions of Russia.

**History.** The SDC was formed in August of 1993. The Board of Directors and Management was restructured in October of 1994, resulting in a more pro-active organization that is more responsive to its members. There are currently 35 members of which about 2/3 are brokers, 1/3 are banks, and 1/3 are registrars.

The SDC is working on establishing integrated links with the "UTC" (broker/dealer SRO in St. Petersburg), and the three St. Petersburg stock exchanges.

Accomplishments at the SDC over the past year include:

- ◆ The establishment of a truly representative CSO organization in St. Petersburg, with 40 members representing all of St. Petersburg's major brokers, banks, registrars, and exchanges
- ◆ The development of computer system software to clear and settle funds and securities held in the nominee name of the SDC
- ◆ The completion of procurement and installation of computer hardware
- ◆ The development of automated procedures to use the system to clear and settle trades, and training in the procedures
- ◆ The development of a plan to clear and settle trades made on the over-the-counter trading system, for issues not held in nominee name
- ◆ The establishment of a Re-registration service, including forms and procedures, to re-register trades on the behalf of members. The SDC has been a leader in the establishment of standardized procedures for the re-registration of securities
- ◆ The participation of the SDC in St. Petersburg Municipal bond offerings and secondary trading.

## Deliverables

### Vladivostok Deliverables

Document	Description
PCD Charter	Governance agreements for PCD
Marketing Brochure	Brochure describing the PCD, for foreign and Russian investors.
Agreement with Transfer Agents	Agreement governing relationship between the depository and the transfer agents (members). Completed by PCD.
System Policies and Procedures	Basic systems policies and procedures, including system administration and development standards.
Agreements with sub-depositories	Agreements between depository and regional sub-depositories. Completed by PCD.

### St. Petersburg Deliverables

Document	Description
SDC Charter	Governance agreements for SDC

SDC Pilot Institutional Development Plan	
CSO Systems Requirements Specifications	Description of the functional requirements for the CSO automated system
Systems Design Specifications	Comprehensive software design documentation, providing a map to programmers
CSO Automated Operating Procedures	Description of clearing and settlement activities in the automated environment
CSO Automated System User's Guide	SDC employee guide on operation of the automated system
CSO Automated Systems Operators Guide	Complete guide to technical operation of the system for system administrators
CSO Re-registration Service Business Development Guide	Procedure manual for re-registration service, including marketing plan for expanding service

### Issues, Recommendations, and Unfinished Tasks

The CSO have taken longer than anticipated to move towards viability. One of the principal factors leading to this delay was the lack of any organized trading system (outside of Vladivostok) to act as an organized "customer" for the CSO operations. Other factors include payments difficulties, tax problems, and the general difficulty of carrying out transparent business operations in the Russian Federation today.

However, the PCD and the SDC have been excellent clients and targets for focused technical assistance. Senior management now has a clear and distinct vision for future development, and the will to get there. The KPMG teams have established close working relationships with the Senior Management of each institution. We believe that under the Omnibus II funded follow-on project that the CSOs can move toward inter-regional linkage, and full viability.

**FINAL REPORT**

**Title of Activity** Task Order #14-0067-KPMG: Institutional Development of Secondary Markets in the Russian Federation

**Country of Performance** Russia

**Period of Performance** May 1, 1994 - September 30, 1996

**Brief Overview of Scope of Work, Technical Approach and Methodologies Used**

Over the past two years, the United States Agency for International Development has focused intensively on the development of Russia's capital markets, to provide a secure and transparent environment essential for attracting the funds to restructure the Russian economy. US AID provided the seed capital required to develop market institutions and architecture that create the foundations of a competitive market economy, and through which future investments will flow.

One of the most successful elements of USAID's capital-markets development program has been the *Institutional Development of Secondary Markets in the Russian Federation* project. The project resulted in the creation of NAUFOR, the Russian national broker/dealer association, and the turnkey establishment of the Russian Trading System (RTS), an electronic trading system suited to Russia's almost entirely over-the-counter trading climate.

In mid-1994 USAID and its counterparty, the Russian GKI, recognized that:

- ◆ The Russian Mass Privatization Program would create 15,000 or more tradable companies and perhaps 40 million investors, making Russia the world's largest market on both counts
- ◆ A trading methodology was required that was most likely to provide liquidity for the large number of companies that would be infrequently traded, as well as for the far smaller group of actively traded companies
- ◆ The market needed to be electronic and non-locational, as Russian securities dealers had already demonstrated a strong preference for trading from their offices rather than physically going to a stock exchange floor. Exchanges were doing 10% or less of trading activity in all Russian markets, with the exception of the Far East.

To encourage an open and liquid market for the shares of newly privatized Russian enterprises, USAID and the GKI sponsored the development and creation of a Russian

national market system. The creation of the system proceeded through several stages, as laid out in the original scope of work for the project:

*Task 1: Identify Appropriate groupings of market participants.*

KPMG Barents Group teams worked in four regions (Moscow, St. Petersburg, the Urals (Ekaterinburg), and Siberia (Novosibirsk)) to identify market trends, understand market conditions, and to locate an initial core group of market participants that could lead the formation of regional dealer associations (RDOs). KPMG then made recommendations to the GKI for the creation of regional associations in each city.

Following the adoption of these recommendations, the KPMG team worked with market participants in each region to found, charter, and develop self-regulatory associations in these cities.

These SROs now have over 250 members; and trading and membership rules have been adopted for each association.

*Task 2: Develop Guidelines and Mechanisms.*

Using the RDO/SRO structure that had been created, KPMG worked to rapidly develop a consensus on future trading. Because of GKI-imposed time constraints, initial work focused on the Moscow association and its trading committee. As noted above, a clear preference emerged for a trading system that was electronic and non-locational, as Russian securities dealers had already demonstrated a strong preference for trading from their offices rather than physically going to a stock exchange floor. Exchanges were doing 10% or less of trading activity in all Russian markets, with the exception of the Far East.

*Task 3: Implement Guidelines and Mechanisms*

*Creation of SRO mechanisms.* The project team worked with the associations to develop rules, disciplinary procedures, arbitration procedures, hire enforcement directors, and appoint compliance officers. The establishment of rules early in the process distinguished the system from its competitors in Russia and guaranteed its later success.

*Selection of trading system software.* The Russian brokerage community reviewed several computerized trading and quotation systems during the summer and fall of 1994, and committees were established by Russian broker/dealer members of SROs to select a system. The market participants ultimately chose the NASDAQ system. The Nasdaq methodology was selected through a tender process because of its capability to provide an efficient market for both frequently traded large companies as well as infrequently traded

small companies -- smaller companies being the economic segment that creates most job and economic growth in most industrialized economies. This capability simply reflects and depends on the economic incentive of dealers to commit their capital to make trades when buy and sell orders are unbalanced.

*Creation of a national telecommunications network.* The next step was the creation of a national telecommunications network to connect a central computer to terminals in each broker's office. Contracts were secured with a variety of telecommunications providers, including MGTS (Moscow), SprintNet, ASVT-Iskra (Moscow), EGTS (Ekaterinburg), NGTS (Novosibirsk), and BCL (St. Petersburg).

*Modification of the trading system software.* The Portal system software selected in the first stage was then rewritten to suit the requirements of the Russian market, creating a unique Russian trading methodology.

*Creation of Technical Organization to operate the system.* The project team also worked to create a technical organization capable of operating the system and maintaining the software.

#### *Task 4: Support Third Party Registrars.*

The GKI also requested USAID to continue KPMG Barents Group's successful involvement in the implementation and operation of the Registrar Support Center in Moscow.

KPMG Barents Group continued its successful effort to build the registrar support center in Moscow. The Registrar Support Centre (RSC) was created in early 1994, as one of the early post-privatisation initiatives of the GKI (State Property Committee) of the Russian Federation. Over 15,000 companies were in the process of being privatised, and it was clear that keeping track of the resulting 40 million shareholders was a task for which the companies and their new registrars were not prepared.

The RSC grew out of a pilot US AID effort to create registrar guidelines and standards, on the basis of work at over 15 registrars in four regions. The mission of the RSC was to build a core group of staff that could continue to support the advancement of the registrar industry in Russia.

Initial activities included assistance:

- ◆ to those organisations acting as third-party registrars or entering the registrar industry
- ◆ to issuers to help them select third party registrars
- ◆ to software developers to create software that met the RSC's standards

- ◆ at a legal and regulatory level to the Federal Commission on Securities and Capital Markets (as of July 1996, the Federal Commission on the Securities Market, or FCSM).

#### *Task 5: Support RFCSE Public Education and Data Collection Efforts*

KPMG Barents Group participated on an as-needed basis to develop materials, give presentations, and meet with interested parties, as directed by the RFCSE (now FCSM).

#### **Contributing Staff Members**

##### *From KPMG Barents Group:*

William Haworth, Jonathan Bulkley, Malcolm Lane, Alex Berg, Fred Berliner, Richard Dvorin, Richard Cowles, Doug Colombo, Margot Jacobs, Nicolas Gunya, Jack Horowitz, Kathy Bristow, Michael Cascio, Jeff Regen, Manuel Mato, Greg McCaffrey, Daniel Hill, Paul Summer, Igor Moryakov, Dmitri Ponomarev.

##### *Subcontractors:*

Khan & Hill

Daniel Hill

Steptoe & Johnson

Marina Kaldina, Walter White

NASDAQ Stock Exchange

Robert Riess, Eugene Callan, Gary DeNoia, Michael Kulczak, Christine Boyce, Georgia Billis, Gary Fox, John Grabarz

#### **Accomplishments of Task**

Within the framework of RTS, NAUFOR, and the regional associations, USAID and the Russian broker/dealers can point to several impressive accomplishments over the past two years:

- ◆ A financially viable national organization of broker/dealers (NAUFOR) has been created, on the basis of the four initial regional associations, with a strong membership base and well-trained staff, and over 250 members across the country
- ◆ An electronic trading system (RTS) was selected, and has become the national standard for the trading of corporate shares
- ◆ common trading rules have been adopted



- ◆ a standard securities buy/sell agreement has been implemented
- ◆ firm quotations have been introduced
- ◆ Rules of fair practice, consolidating the principles of equality and justice in relations between professional securities market participants and their clients, were adopted
- ◆ Standards for broker back-office accounting and operations were adopted
- ◆ Disciplinary and arbitration procedures were put in place to adjudicate disputes among members.

#### Overview of RTS functionality

The Russian Trading System (RTS) is a comprehensive system supporting dealer and market maker activities in the shares of Russian privatized enterprises. The system has now been installed on the terminals of broker/dealers who are members of the four regional broker/dealer associations operating in Moscow, St. Petersburg, Ekaterinburg and Novosibirsk. The system links regional markets into a *unified trading network*. Users of this system are able to trade securities of Russian privatized enterprises in a real-time mode. RTS makes it possible both to trade shares of local enterprises in the regional markets and to conclude transactions on an inter-regional level with shares circulating throughout Russia.

RTS permits dealers operating from their offices to trade with dealers in distant locations electronically by a system that displays competing dealer bids and offers. The highest bid price (to buy shares) and the lowest offer price (to sell shares) top lists of dealers displayed electronically in price priority. Trading is regulated by rules enacted by the broker/dealer associations, which are considering the formation of an all-regional Russian National Dealers Association to regulate inter-regional trading.

#### ***Basic Functionality:***

- ◆ The system allows trading of securities on a real time, on-line basis. Brokers enter "bids" (offers to buy shares) or "offers" (offers to sell shares). These quotations and the firms making the quotations are ranked by the system in the order of the highest bid and the lowest offer. Brokers can review these quotations, telephone or send messages through RTS to negotiate with other dealers, and report the executed trades
- ◆ Dealers are able to send messages to each other over the system
- ◆ The system also offers to non-market makers a view-only function that allows investors and issuers to follow the market.

***Reliability:***

What distinguishes the RTS from other domestic markets is its use of information technology - computers and telecommunications - to enable securities firms across the entire country to compete freely with one another in a screen-based, dealer-driven environment.

- ◆ RTS employs a Stratus computer with integrated multilevel support and protection systems
  - ◆ the SprintNet network, one of the most widespread and reliable networks in Russia, links dealers on an inter-regional level
  - ◆ locally users will be connected with RTS telecommunication network by the best available communication means (dedicated telephone lines and/or specialized networks).
- ⇒ The system is simple to use and has the capability to be enhanced according to the evolving needs of the Russian market.
- ⇒ The system will provide access to the Depository Clearing Company's clearing and settlement system, thus lowering costs and resulting in automatic settlement after transaction execution.
- ⇒ It will be possible to trade stocks of any privatized companies in the system, regardless of their size and location. Regional dealers will be able to create their own regional markets for trading shares that might be interesting for local investors.
- ⇒ The system is relatively inexpensive due to the design of the telecommunication network, which requires one host computer (located in Moscow).

***RTS Management:***

A Technical Center to manage the operation of the RTS was also put in place. By the spring of 1995, Mr. Alexei Telyatnikov, current director of the RTS and a former KPMG Barents employee, had hired a staff and a team of subcontractors and was responsible for guiding the software and hardware enhancements made to the system to increase its utility in the Russian market. By the end of the project, the RTS was self-sufficient, and all operating support to regions identified in this task order was terminated in the fall of 1996.

***RTS Reach:***

The RTS now links the following cities: Chelyabinsk, Ekaterinburg, Irkutsk, Moscow, Novosibirsk, Orenburg, Perm and St. Petersburg. Over the next few months, it is planned that the RTS will be extended to Astrakhan, Barnaul, Kazan, Krasnoyarsk, Kurgan, Nizhny Novgorod, Omsk, Rostov, Saratov, Surgut, Togliatti, Tomsk, Tiumen,

Vladivostok, Volgograd and Yakutsk. In September 1996, more than 200 brokers currently used this system and an estimated 70% of all over-the-counter trading in Moscow, which accounts for 90% of the market, is carried out on the RTS. Moreover, the RTS has become the primary pricing mechanism for over-the-counter securities.

***RTS Regulation:***

RTS is distinguished from other domestic Russian markets by the fact that it will be regulated, owned and managed by its users - broker/dealers who trade in the system and are members of regional professional self-regulatory associations. RTS thus functions as a trading system which supports procedures reflecting current trading practices and rules developed and adopted by member-driven self-regulatory organizations.

According to trading rules established by NAUFOR, all quotes on the RTS are firm. Currently, 19 market-making brokers and banks are making firm, two-sided quotes in 13 of Russia's most liquid issues. The number of market makers has grown from seven a few months ago, reflecting the fact that more and more brokerages are willing to meet the necessary qualifications. Of the 130 issues listed on RTS during the week ending September 29, 1995, 70 had quoted prices and 50 had two-sided markets. Spreads between bid and offer prices are now well under one percent for the more liquid issues.

The Listing Committee of NAUFOR has developed new procedures for listing securities on the RTS. Securities will be divided into two types, with ratings dependent upon the size of the company's market capitalization, the conditions for registration of shareholders, and the company's disclosure practices. Once a month, the PAUFOR Listing Committee will review the ratings of qualified securities, and any security that fails to adhere to necessary standards will have its rating lowered automatically.

By the end of 1996, ownership of the RTS hardware and software is expected to be transferred to NAUFOR, the national broker/dealer association that will own, operate, and regulate the RTS. Access to the RTS is available to members of NAUFOR, who are responsible for developing and enforcing the rules for trading on the system. These associations have developed governance and fair-practice rules, as well as rules for trading on the system. Each has appointed a compliance office to oversee rules enforcement. There have been several cases of these associations taking disciplinary action against members who violated trading rules. In addition, a Russian Technical Corporation has been created to supervise the technological aspects of the RTS.

***Current Usage of the System:***

Membership in one of the following self-regulatory organizations is a requirement to trade on the Russian Trading System.

<b>City</b>	<b>Name of the association</b>	<b>President</b>	<b>Chairman of the Board of Directors</b>
Moscow	Professional Association of Securities Market Participants (PASMP)	Ponomarev, Dmitri Vasilievich	Vardanyan, Ruben Karlenovich
St.Petersburg	Fund of Securities Market Participants <i>Unified Trading System</i>	Lazarko, Ivan	Lazarko, Ivan Dmitrievich
Ekaterinburg	Urals Association of Financial Brokers/Dealers	Lobov, Arkadi Borisovich	Melyukhov, Oleg Fedorovich
Novosibirsk	Association of Siberian Stock Brokers	Turok, Alexander Vladimirovich	Chikunov, Alexander Vasilievich

**Registrar Support Center**

Under the auspices of the FCSM, KPMG and RSC staff took a number of initiatives to meet these goals.

- ◆ The RSC formalised and distributed registrar operating standards and procedures, and distributed them in kit form to a number of registrar organisations
- ◆ In the middle of 1994, the RSC developed and delivered over 10 training programs, in conjunction with the Institute of Privatisation and Management
- ◆ The RSC developed and worked to build a member-driven association for the registrar industry. The Professional Association of Registrars and Transfer Agents

and Depositories (PARTAD) has become the leading member organisation in the industry

- ◆ The FCSM tasked PARTAD with some licensing review authority, and PARTAD participated in the review of approximately 148 applications for licensing over the period ending in April 1996. Throughout this period, PARTAD was receiving extensive staff support from the RSC, which has traditionally provided a considerable portion of PARTAD's resource base.
- ◆ With assistance from PARTAD members, the RSC developed standards for registrar licensing and transfer instructions. Many of these recommendations were later incorporated into the FCSM's key decrees on registrars and registrar licensing.

Two and one-half years after the RSC's formation, the registrar industry has greatly advanced, and the clients of the RSC have a very different set of needs.

- ◆ Two years ago, even large registrars were still learning their trade. Today, many of the larger registrar companies are highly professional and experienced organisations.
- ◆ Two years ago, small registrars dominated the market. Today, a rapid and widespread consolidation is underway, as small, unprofitable registrars merge, large well-capitalised registrars take away issues from their smaller competitors, and new laws force companies that previously relied on "pocket registrars" to go out and find a third party to control their registry.
- ◆ Many new basic laws and regulations governing registrar activity and the requirements of joint stock companies towards their shareholders are now in place.

### **Deliverables**

All tasks and goals under the project were completed and met. The principal deliverable is a vibrant and active over-the-counter trading system in Russia.

### **Issues, Recommendations, and Unfinished Tasks**

RTS and NAUFOR are currently working with Barents Group to take several steps to improve the trading system and to continue to build the organization and SRO. Under the new USAID *Trading Systems and CSO* Task Order, these include:

- ◆ **Expansion to new regions.** RTS/NAUFOR is working with Barents Group to expand its reach to approximately 45 brokers in South Russia, the Volga region, and

the Russian Far East. At the conclusion of this project, RTS/NAUFOR will cover all economically important regions of Russia.

- ◆ **Second Tier Market.** Under the new USAID *Trading Systems and CSO* Task Order, RTS/NAUFOR is working with Barents Group to add functionality to the system to further increase its usefulness for all of its users. In the first year of operation, the dealers concentrated on the creation of a market for the Russian "Blue Chip" market. This includes the approximately 80 issues currently listed on the system, but focuses on the top 21 very liquid issues.  
However, the RTS system was designed on a Nasdaq platform to support the growth of smaller, less liquid companies. In the near future, a second tier market using the same Nasdaq-based technology will be created, to serve as the market for less liquid, regional issues.
- ◆ **Enhancements to the system.** RTS is working with Barents Group experts to move rapidly to further enhance the system and to add additional functionality. The medium-term goal is to create a client-server environment that will greatly increase the power and functionality of the system, while reducing demands on telecommunications. This system is scheduled to be available in early 1997.
- ◆ **Information Dissemination.** RTS is moving to disseminate information more widely. Key to this process will be the installation of a World Wide Web server that will provide on-line information about NAUFOR and will provide market prices with a 15 minute delay. RTS is also establishing international agreements with Reuters, Bloomberg, Telerate, and other international information providers.

### Registrar Support Center

Several problems still remain in the area of settlements. Registrars still do not have an official SRO or licensing mechanism. PARTAD functions in many respects as a "trade association" and does not regulate its members in any real sense. The whole area of "transfer agency", where another organisation acts as an agent of the registrar, is unstandardised and very unclear. Registrars in the regions of Russia do not yet fully understand the laws and regulations that exist.

In general, although shareholders' rights are more secure, and great improvement has been made in the standardisation of securities settlement, Russia has still not reached the international standard for share transfer efficiency and safekeeping of securities.

These problems are also being addressed by additional projects. In particular, the new USAID *Trading Systems and CSO* Task Order provides continued support for the Depository Clearing Company (DCC), which is continuing to expand and build on earlier efforts, and is now on-track to become Russia's premier settlement institution. In

addition, the British Know-How Fund is now supporting the work of the Registrar Support Center, which will continue through 1997.

## FINAL REPORT

**Title of Activity** Task Order # 15-0080-KPMG: Capital Market Institutional Development in Kazakhstan

**Country of Performance** Kazakhstan

**Period of Performance** July 10 - December 18, 1994

### **Brief Overview of Scope of Work, Technical Approach and Methodologies Used**

*Note:* This task order was carried out in conjunction with Task Order #16-0081-KPMG: Shareholder Rights/Corporate Governance in Kazakhstan.

This task order was designed to help ensure the success of the Mass Privatization Program in Kazakhstan by providing a proper securities market infrastructure. The focus of the task order was to review the current capital markets situation and select candidates for pilot projects, with an emphasis on committing the greatest effort toward implementing institution-building projects. In addition, GK and other institutions were provided ongoing advice in the area of securities trading methodology.

During the diagnostic phase of the project, extensive interviews were conducted with government ministry officials, central bank officials and investment privatization funds (IPFs). The project team:

- ◆ Identified constraints inhibiting rapid capital market development
- ◆ Developed multiple strategies to allow for rapid resolution of these restraints
- ◆ Identified candidate institutions for training and pilot institutions for institutional development
- ◆ Collected input from enterprises that had participated in a preliminary wave of "self-privatization" and joint-stock companies/cooperatives that were in the process of developing preliminary registrar organizations

The following major constraints were identified:

- ◆ Absence of tradable merchandise in the market
- ◆ Absence of qualified brokers
- ◆ Poor performance by the Almaty Stock Exchange and Kazakhstan Stock Exchange (subsequently merged to form the Central Asian Stock Exchange)
- ◆ Absence of securities laws and of a national commission on securities

Due to local conditions, the goals of the original task were redefined to address the realities of the capital markets environment in Almaty.



**Clearing/Settlement/Depository (CSD).** Barents staff established the groundwork from which a CSD could be created. A Founders Group was established, composed of the six major banks, Central Asian Stock Exchange, National Commission on Securities (NSC), GKI and IAC. The participants agreed the CSD would be a non-profit, participant-owned joint stock company. A Working Group was established to accomplish this and future initial tasks. Barents provided the Working Group and the NSC with sample draft regulations that could be used as the legal framework to create a CSD. Significant progress had been made in gaining the IAC's acceptance of the conceptual framework of the securities markets organization and the role of the CSD as a private, non-profit, participant-owned joint stock company.

The success of the CSD depends on continued cooperation from the GKI and the privatization of the IAC. If this is successful, it could conceivably make available to the CSD and other private sector market participants the IAC's technology and communications. Much of the staff's time was spent in convincing the GKI of the importance of a participant owner CSD. Barents left with the working group a plan of actions to be taken in order to bring the CSD to fruition. The Working Group will have to turn its attention to preparing business and financial plans, obtaining a charter and license, adopting rules of governance, implementing manual CSD operating procedures, hiring and training staff persons in those procedures, and ultimately determining an appropriate automated system to install. Barents Group took preparatory steps in all of these areas to provide appropriate support in each stage of developmental process.

**Registrar/Custodian Support Center (RCSC) and Pilot.** Barents established a support center that consists of seven local staff members. They include: an accountant, computer systems support, legal specialist, technician, operations assistant/translator, and receptionist/office assistant. Initial steps were taken to identify a local firm to develop Custody software. In discussions with USAID, Barents had expressed the concern that in order for Kazakstani custodial organizations to be able to provide services that conform to international standards, a uniform custodian software system will have to be developed. This option is preferred to the other options (developing "in-house" systems or purchasing more advanced custodial systems available in the U.S. or Europe). Barents was in discussions with USAID as the project came to an end. Grant share registry prototype software was chosen for registrar support.

The RCSC has met with a number of banks in order to identify premier institutions in Kazakhstan that would qualify to become candidates for either a Registrar or Custody pilot. In addition, two additional registrars and four "custodians" have been trained on procedures and operational requirements.

**Third-Party Share Registrar Pilot.** In November 1994, KazCoopInvest was chosen to be the pilot registrar. The pilot software was developed by a Grant Software from Moscow and is composed of Grant's own Everest registry package and the Progress database software. The equipment was to be installed at KazCoopInvest. Preliminary training was begun for registrar staff using prototype software; modifications were

identified and made to tailor it to the Kazak environment. At task end, hardware and software responsibilities were turned over to Intrados.

**Common Back Office.** Simple back office "primer" was created to train new brokerage firms on a thorough accounting system, including appropriate ledgers and accounts and relevant work flow diagrams. Trainers were identified and trained. Contacts were established with the senior staff of the stock exchange (CASE) in the hope that the program would be taken over by the exchange and/or the clearing and settlement organization. The manual back office system for a "one-person" brokerage was completed as well as a PC-based version of the system; both are available in Russian. Both versions were developed with the active assistance of local brokers and were validated through test runs. More than a dozen training seminars were conducted. Thirty IPF and banking institutions were trained on the manual procedures. We also assisted local pilot software vendors and software service vendors to conform to the established standards. The design of the system creates an accounting standard for the brokerage community comparable to western accounting standards and provides a bridge for the conversion of the accounts of securities firms from the former Soviet chart of accounts to the western chart of accounts.

**Broker/Dealer Support Center.** A support center was organized in Chimkent with the mandate to identify current and future needs for broker support and training sessions. In addition a broker workstation was developed; we used Paradox for Windows 5.0. The software has the capability to send electronically buy/sell orders to CASE, thereby updating the customer records upon execution. The software will also create a standardized accounting system in the brokerage house for individual broker/dealers as well as the directors of brokerage organizations.

An educational seminar was presented at the Investment Privatization Fund Conference on the Common Back Office computer system as well as on the functions of the Broker/Dealers Support Center. Feedback from conference participants was incorporated into the development of several detailed areas of the Back Office System.

### **Contributing Staff Members**

Jonathan Bulkley, Andre Saumier, Arthur Goldsmith, Nils Ekberg, James Nesfield, John Strafford, Kevin Julius, Geoffrey O'Brian

### **Accomplishments of Task**

- ◆ Clearing/Settlement/Depository
  - ◇ Founders Group and Working Group established on which a future Clearing/Settlement/ Depository institution can be based
  - ◇ Manual clearing and settlement procedures and modules created

- ◇ Operating rules and membership requirements finalized
- ◆ Registrar/Custodian Support Center
  - ◇ Local staff hired and trained
  - ◇ Initial steps taken to identify local systems design firm for future development of custody and registrar software
  - ◇ Grant share registry prototype software transferred
  - ◇ Additional registrars trained
  - ◇ Custodian pilots identified and created in principle
- ◆ Third-Party Share Registrar Pilot
  - ◇ Prototype software acquired, installed and successfully tested
  - ◇ Hardware identified and acquired
  - ◇ Registrar staff trained to operate the system and act as future trainers
- ◆ Common Back Office
  - ◇ Manual and PC-based back office system designed and circulated
  - ◇ Training seminars conducted
- ◆ Broker/Dealer Support Center
  - ◇ Pilot regional office established in Chimkent
  - ◇ Broker workstation software developed
  - ◇ Training conducted on functions of support center
  - ◇ Database created of all companies listed on CASE as well as all broker/dealers in Kazakhstan

### **Deliverables**

- ◆ Guidelines on capital market structure and methodology presented for approval
- ◆ Institutions for pilot initiatives selected
- ◆ Clearing system operational
- ◆ Recording of shares operational
- ◆ Settlement of trades operational
- ◆ Operational common back office
- ◆ Operational custody service, trained cadre and basic regulatory infrastructure in place
- ◆ GKI and other private institutions advised on regulatory and standard development, including surveillance audit procedure and mechanism

### **Issues, Recommendations, and Unfinished Tasks**

The most immediate constraint to the creation of a CSD was the absence of regulation enabling the National Commission on Securities to issue a charter and license for the institution. Regarding the privatization of the IAC's essential infrastructure functions related to the CSD, the Ministry of Privatization had yet to make any firm commitment. Nonetheless, it is hoped that government interaction with private sector participants in the working group will encourage timely action from the GKI in deciding this issue.

**Third Party Registrar Pilot.** In mid-July, USAID decided to change the site of installation to that of the Central Asian Stock Exchange. At the same time Barents turned over the project to Intrados Group. Installation and training was expected to be completed by late 1995.

Final implementation of the intended capital market infrastructure was impeded since there were virtually no capital market participants because there were few if any shares to trade, due to delayed privatization. Without real counterparty broker/dealers or other Kazaks interested in a career in a basically nonexistent capital market, there were insufficient counterparty structures available or ready for development for the project team to collaborate with. In addition, GKI and its Accounting Center had a view of the Center as the market's major Clearing/Settlement/Depository institution that was inconsistent and irreconcilable with the market infrastructure implicit in the Task Order.

**FINAL REPORT**

**Title of Activity** Task Order # 16-0081-KPMG: Shareholder Rights/  
Corporate Governance

**Country of Performance** Kazakstan

**Period of Performance** July 10, 1994 - February 28, 1995

**Brief Overview of Scope of Work, Technical Approach and Methodologies Used**

*Note:* This task order was carried out in conjunction with Task Order #15-0080-KPMG: Capital Market Institutional Development in Kazakstan.

The primary objectives of the task order were to

- ◆ Develop legislation that addressed all relevant aspects of shareholder rights/corporate governance
- ◆ Develop recommendations for coherent corporate law infrastructure
- ◆ Educate the public and enterprises with respect to shareholder rights and corporate governance
- ◆ Recommend improvements in share tradability
- ◆ Establish regulatory capacity through the development of SRO
- ◆ Provide regulatory recommendations with respect to the assignment of roles and definition of relations among government regulatory bodies and SROs.

During the diagnostic phase of the project, the project team conducted extensive interviews with government ministry officials, central bank officials and investment privatization funds. We developed strategies to allow for rapid resolution of the restraints in the capital markets environment and identified candidate institutions for training and pilot institutions for institutional development. Primary emphasis was placed on:

- ◆ Narrowing and selecting candidates to assist in developing the pilot share registrar
- ◆ Working with the State Property Committee (GKI) to assess current legislation in the area of shareholder rights and corporate governance procedures
- ◆ Organizing a program for training in shareholder rights and corporate governance

**Shareholder Rights/Corporate Governance Legislative Framework.** The KPMG corporate governance team worked in cooperation with a group designated by the Minister of Justice to prepare a new Law on the Economic Partnerships and Joint Stock Companies. Translations of company laws from other nations were translated into Russian. These, as well as comments on the draft law were delivered to the Ministry of Justice and were circulated among interested parliamentary committees. The Center for Corporate Governance was developed and staffed with two trained local staff members.

**Tradability of Shares Support Program.** Progress under this task order was prevented because there were no shares available for trading on the Central Asian Stock Exchange (CASE). While some firms do allow their shares to be traded, there still remains a lack of tradable merchandise. Attempts to introduce the shares of the investment privatization funds (IPFs) into trading on the stock exchange have been undermined because the funds have been unable to receive accurate shareholder information from GKI. Until GKI's shareholder database is corrected, trading of the IPF shares will be delayed.

**Training in Shareholder Rights/Corporate Governance:**

- ◆ Corporate governance manual
  - Prepared detailed introduction to corporate governance procedures as they are required in current Kazakhstan law, with recommendations based on international practice.
- ◆ Guide to the annual general meeting of shareholders
  - Compiled detailed reference for the planning and implementation of the annual general meeting for joint stock companies.
- ◆ Corporate governance/shareholder rights training seminars
  - Conducted six weekly training seminars to deal with basic corporate concepts, shareholder meetings and proxy rules, shareholder voting, disclosure and reporting rules.
- ◆ Shareholder meetings
  - KPMG worked extensively with the Kyzhibek Sewing Company to assist in their extraordinary General Meeting that would start their Initial Public Offering process. A local consultant helped in preparing the agenda, proxy and ballot forms, as well as a procedure for quorum determination and vote tabulation. A local training assistant was hired to facilitate the directors' training.
- ◆ Corporate governance training: IPFs
  - Participated in a seminar for IPFs in cooperation with the USAID Mass Privatization Consortium. Provided information to the funds about corporate governance issues and their obligations to their shareholders.

- ◆ **Public education: shareholder rights**  
Cooperated in the preparation of materials to be used in a public education campaign aimed at making citizens aware of their rights as shareholders. KPMG corporate governance lawyer taught a month-long course on corporate governance/shareholder rights issues at the Kazak "Adilet" law school.
- ◆ **Fund manager/securities market participant examination**  
Questions and model answers for Corporate Governance/Shareholder Rights module compiled for future training courses for fund managers and securities market participants at Center for Corporate Governance.

**Third Party Share Registrar.** A Joint Technical Committee was set up with the registrar counterparty (KazCoopInvest) to select registrar software. A prototype pilot system was completed to test the software chosen and train organization personnel to use the registrar system. The software was acquired, installed and successfully tested. The same software will be used for the larger pilot registrar organization.

**Self-Regulatory Initiatives.** The first step toward creating a securities industry SRO was made in early February 1995 when the Kazakhstan Alliance of Securities Dealers (KASD) became an officially licensed joint stock company.

### **Contributing Staff Members**

Jonathan Bulkley, Jean Spears, Randall Morin, John Strafford, Ruwan Salgado, Scott Saliterman, Hugh Orozco

Subcontractor: Harvard Law School  
Cliff Garstang, Sarah Reynolds

### **Accomplishments of Task**

Results were achieved in each of the six Scope of Work items:

- ◆ **Guidelines for Project** - finished in first 60 days.
- ◆ **Legislative framework** - extensive written and verbal communication with relevant government groups including policy advice and detailed comments on draft laws.
- ◆ **Training in shareholder rights & corporate governance** - A Shareholders' Rights Manual was published, training classes held, companies in various regions visited and staff for a support center dealing with these issues were hired.

- ◆ Third party registrar - Selected a pilot with USAID concurrence, procured off-the-shelf software, procured hardware, and trained staff to manage a registrar for (ultimately) 3 million shareholders.
- ◆ Tradability of shares- The constraints on tradability structured in the privatization program and the slower-than-planned pace of privatization limited the relevance of this item.
- ◆ Self regulatory initiatives - During the early months of this project, there were few brokers and no organization of brokers. At project end there was still no functioning securities commission. During the final month of the project the first organization of dealers was formed, and the project team worked with this group and the new stock exchange on these issues.

### **Deliverables**

- ◆ Approved implementation guidelines.
- ◆ Basic corporate laws focusing on corporate governance, shareholder rights, voting, tradability, dividends, corporate management, corporate control, minority protection, and third party registrars were drafted/modified and presented to the GK.
- ◆ Pilot project dealing with restraints on tradability concluded.
- ◆ Developed training and self-teaching brochures and manuals; shareholder relations management.
- ◆ Pilot third party registrar operational, equipment installed and functional, developed standard share registration system.
- ◆ Organized pilot SRO self-regulating and functioning to protect the interest of investors and members.

### **Issues, Recommendations, and Unfinished Tasks**

Results were consistent with the changing political situation and delayed privatization program. Tradable shares create the momentum for brokers to emerge and for local energies to form on needed legislative framework, regulator organizations, and capital market institutions. The structure of the privatization program and changing GKI leadership clearly affected the pace of capital market development in the last half of 1994.



**FINAL REPORT**

**Title of Activity** Task Order #17-0115-KPMG: Mass Privatization Program - Phase II, Program for Intensive Enterprise Support (PIES)

**Country of Performance** Russia

**Period of Performance** March 1, 1995 - June 21, 1996

**Brief Overview of Scope of Work, Technical Approach and Methodologies Used****Objective:**

To address, on a limited but significant scale, pervasive problems of Russian enterprises, to document successful and "standard" approaches and solutions to them and to transfer know-how to managers and Russian consultants.

To provide for overall restructuring assistance, general strategic advice, the realization of specific enterprise level operational improvements, and the implementation of specific investments and development projects.

**Phases of Activity:**

## ◆ Selection

- ◇ Enterprise applications were reviewed by the Russian Privatization Center (RPC), USAID, and the participating consulting firms. Potential candidates were interviewed in Moscow, followed by site visits to the most promising candidates. A recommended list of enterprises was then presented for the approval of the RPC Board and USAID. The enterprises chosen were allocated between the consulting firms.
- ◇ To support the enterprise selection industry and company research was undertaken, including literature searches of publications and reports, interviews with industry experts and trade associations, and economic and commercial database surveys.
- ◇ Criteria for selection
  - the degree to which management sought active participation in the program
  - realistic expectations of management for the project
  - as assessment of the fundamental attractiveness of the industry sector and its prospects
  - an assessment of the actual operations of the specific enterprise and the degree to which improvements were possible, given the resources and time frame of the project
- ◇ Enterprises selected for this project
  - Iletsk-Sol, a salt mine and processing facility in the Orenburg region
  - Pavlovo Bus Factory in the Nizhegorodskaya oblast

- Saransklabel, a producer of power and telecommunications cables in the Republic of Mordova
- Saransk Electric Lamp Factory, a producer of incandescent and fluorescent lamps in the Republic of Mordova

◆ **Implementation**

- ◇ Presentations for top enterprise management given to:
  - explain project goals and plans
  - demonstrate what similar projects had accomplished
  - present initial hypotheses for work plans.
- ◇ A 2-3 month diagnostic designed to give the consultants a thorough understanding of each enterprise was carried out. Activities included:
  - Industry/competitor analysis
  - Market/customer analysis
  - Marketing/distribution analysis
  - Cost analysis
  - Supplier analysis
  - Liquidity/financial/accounting analysis
  - Social assets analysis
  - Information and financial systems analysis
  - Organizational structure/human resources analysis
  - Manufacturing analysis
  - Legal analysis.
- ◇ Technical production experts brought to each site for consultation and to submit a technical report at end of assignment.
- ◇ Implementation of recommendations, which could take a variety of forms:
  - Internal lobbying for implementation
  - Formulation of internal paperwork
  - Designing and monitoring a schedule
  - Training employees
  - Meeting with investors
  - Putting a work plan in place.
- ◇ Rollout seminars were organized and conducted in regional capitals where PIES work was taking place for enterprise directors.

**Contributing Staff Members**

Subcontractor: Bain and Company

John Tokolish, James Allen, Ben Burman, Igor Saguirian, Nadya Vasilieva, Mark Vadon, Sergei Savchenko, Igor Ahkmerov

**Accomplishments of Task**

- ◆ **Ilets-Sol**

- ◇ Marketing strategy revised
- ◇ Investment plans radically revised
- ◇ Company reorganized
- ◇ Accounting procedures reorganized
- ◇ Standard contracts written
- ◇ Corporate charter revised
- ◇ Tax and legal advice given
- ◆ Pavlovo Bus Factory
  - ◇ Renovation program postponed
  - ◇ Marketing strategy refocused
  - ◇ Dealer network developed and discount system initiated
  - ◇ Leasing concept introduced
  - ◇ Spare parts supply system developed
  - ◇ Sales incentive program introduced
  - ◇ Cost accounting revised
  - ◇ Sales and marketing department reorganized
- ◆ Saransklabel
  - ◇ Marketing department reorganized
  - ◇ Manufacturing scrap cost reduction implemented
  - ◇ Downtime reduced
  - ◇ Tax liabilities reduced
  - ◇ Management information systems reviewed
- ◆ Saransk Electric Lamp Factory
  - ◇ Marketing and sales strategy designed
  - ◇ Quality control improved
  - ◇ Production costs reduced
  - ◇ Model of profitability and cash flow developed
  - ◇ Standard contracts drafted
  - ◇ Senior management reorganization recommended
  - ◇ Inventory accounting method recommended
- ◆ All relevant restructuring and training materials were delivered to the RPC and USAID.
- ◆ Manager level training seminars held in Orenburg, Nizhny Novgorod, and the Republic of Mordova.
- ◆ Business plan and information memoranda were given to each enterprise.

**Deliverables**

- ◆ All relevant restructuring materials developed pursuant to the scope of work of this Task Order and all company related briefing materials to be delivered to USAID and RPC in both English and Russian.
- ◆ Four medium-to-large enterprises that are restructured and are operating along competitive western standards.

**FINAL REPORT**

**Title of Activity** Task Order # 18-0019-KPMG: Kiev Commodities Initial Assessment

**Country of Performance** Ukraine

**Period of Performance** May 15 - June 30, 1995

**Brief Overview of Scope of Work, Technical Approach and Methodologies Used****Objective:**

This task order was designed as a short-term diagnostic to assess the current situation in Ukraine and provide recommendations for the further development of a viable agricultural commodity exchange in Ukraine.

Over a period of two weeks, extensive meetings were held in Kiev with representatives of the Government of Ukraine, the Ukrainian National Bank, the Kiev Agrarian Exchange, and USAID.

**Contributing Staff Members**

Ivan Bartling, James Jordan, and Charles Allen

**Accomplishments of Task**

Developed objectives and specific items necessary to construct the Commodity Exchange in Kiev. The report submitted by the American consultants included recommendations by the joint Ukrainian-American expert group on the organization and functioning of a Ukrainian Agrarian Exchange. Recommendations were made in the following areas:

- ◆ Organization of the agrarian exchange
  - ◇ Membership
  - ◇ Administration
  - ◇ Ownership
  - ◇ Financial requirements
  - ◇ Clearing house and guarantees
- ◆ Public relations
- ◆ Operational and technical requirements
  - ◇ Floor space
  - ◇ Hardware/software

- ◇ Communications
- ◇ Trading rules
- ◆ Donor assistance priorities
- ◆ Technical expertise requirements

**Deliverables**

- ◆ Background on political, and legal/regulatory context for a new commodity exchange
- ◆ Brief description of existing commodity exchange and any existing self-regulatory organization
- ◆ Description and analysis of market for major commodities to be traded on new exchange
- ◆ Description of GOU goals and objectives for new commodity exchange, with discussion of their feasibility
- ◆ Alternatives for new commodity exchange and recommendation of preferred option, based on analysis of what current conditions justify.
- ◆ Needs assessment for recommended type of commodity exchange, such as personnel requirements, trading rules, financial infrastructure, licensing system for authorized brokers.

**Issues, Recommendations, and Unfinished Tasks**

Due to time constraints, the consultants were unable to visit any regional exchanges.

## FINAL REPORT

**Title of Activity** Task Order # 19-0123-KPMG: Secondary Market Trading Development in Ukraine

**Country of Performance** Ukraine

**Period of Performance** September 1, 1995 - September 30, 1996

### Brief Overview of Scope of Work, Technical Approach and Methodologies Used

#### I. Project Objectives

**National Trading System.** Create a national electronic trading system with an intra-city network linking the Ukrainian broker-dealer community to a central computer, trading system in Kiev. The trading system will provide a national over-the-counter facility to collect competitive quotations and present those data in a consolidated form to participating broker-dealers. The system will also provide for the ability to consummate a transaction between the contra parties and transmit a pre-matched transaction to an established clearing, settlement and depository facility.

**Self-Regulatory Trading Association.** Establish a self-regulatory trading association (SRO) of eligible broker-dealers, who will manage the association and operate the trading system. The association will promulgate, monitor, enforce rules, and establish trading norms leading to ethical behavior between members and investors.

The association will create rules and regulations to minimize systematic risk between broker-dealers, to promote financial soundness in the securities market, to formulate listing criteria for privatised securities, to protect the investing public by disseminating relevant securities information, and to establish acceptable accounting of client securities activity.

**Legal and Regulatory Assistance.** Counsel the Government of Ukraine on the regulatory role of the securities commission and develop a plan to outline its initial responsibilities.

Ensure a solid foundation for the Commission's legal and regulatory initiatives by providing ongoing policy recommendations.

Secure the Commission's abilities to efficiently monitor the activities of the market by ensuring enforcement and compliance of legislation through staff training.

Subsidize the Commission's initial start-up cost and implement a local area network to support their computer requirements.

## **II. Technical Approach and Methodologies**

Established a fundamental approach of acquiring basic information readily available from existing governmental bodies, data accumulated by other contractors, and innate organizational experiences from similar projects. This approach reduced the time necessary to establish a solid foundation of information, and enveloped the local establishment into the essential objectives of the project.

A secondary and equally effective approach invited market participants to actively participate in the primary selection processes. Early project direction was geared toward isolating alternatives and selecting appropriate responses in the following areas: the formation of the trade association, development of the association's charter bylaws, self-regulatory trading rules, disciplinary code, and the selection of the trading system hardware and software. This approach brought the interested parties directly into the selection process and deflected any perceived bias on our part.

Lastly, the trading system's cost performance, based on industry norms, established the probability of the association achieving self-sustainability by the end of the project. This analysis accurately established base-line cost against anticipated revenue and prognosticated the association would achieve financial stability in 1998.

The financial model also guided the development of the trading system by allowing us to fine tune cost to achieve optimum system performance.

### **Contributing Staff Members**

Jonathan Bulkley, Jack Horowitz, Geoffrey Elkind, Manuel Mato, Richard Cowles, Arthur Goldsmith, Richard Dvorin, Hugh Patton, Michael Mulligan, Michael Cascio, Craig Majernik

### **Accomplishments of Task**

All deliverables were accomplished as defined in the two sections below.

#### **Deliverables**

By the end of the task order:

- ◆ A national broker/dealer SRO will have been organized, its staff trained, its office rented and equipped. The SRO's members will subscribe to membership rules, trading rules, and standards of professional and ethical behaviour.
- ◆ A national electronic over-the-counter trading and communication system capable of on-line continuous trading will have been set-up. The system will connect 40 eligible

broker/dealers in Kiev, plus 15 in each of the other regions. All necessary hardware, trading and communication software will have been installed and tested, and user trained.

- ◆ The above system will be owned and operated by the broker/dealer SRO through a technical corporation. The corporation will have been hired and trained, its office rented and equipped.
- ◆ Transitional clearing and settlement facility for the trading will have been arranged.
- ◆ Consensus with regard to the principles of the role of the Ukrainian Securities and Exchange Commission will have been reached. These principles will recognize independence, clearly defined authority, professionalism, as well as regulatory and development role of the Commission.
- ◆ Key legal/regulatory issues to be addressed by the Commission will be defined, plan for legal drafting, and commenting on the drafts.
- ◆ Organizational and functional plan for the Commission will have been developed. Initial office equipment will have been procured and installed.
- ◆ Training needs of the commission's senior staff will be identified and training plan developed. Jointly identified officials will be trained in the U.S. Securities and Exchange Commission and, possibly, commissions in other Eastern European and NIS countries. Several seminars covering different aspects of the Commission's activities will have been organized for the Commission employees locally.

### **Issues, Recommendations, and Unfinished Tasks**

A transitional clearing and settlement facility was developed but not implemented. This was due to a lack of appropriate regulations combined with a vacillating securities political climate. The passages of the clearing and settlement regulation(s), expected by the end of this year, will establish an atmosphere for rapid progress in this area.

The trading system's success depends on the expansion of the privatization process, including the large state-owned companies, especially those involved in utilities, natural resources and communications. Foreign investors will continue to maintain a watchful eye on the Ukrainian market until this core of 200 firms is moved to the public investment sector. Pending this eventuality, the trading system will continue to account for modest trading activity. Foreign investors and quality stocks will increase system activity and ultimately ensure the trading system's success.



**FINAL REPORT**

**Title of Activity** Task Order # 20-0127-KPMG: Diagnostic: Advice on Policies for the Development of Securities Markets in Ukraine

**Country of Performance** Ukraine

**Period of Performance** June 10 - August 31, 1995

**Brief Overview of Scope of Work, Technical Approach and Methodologies Used**

This task order was intended as a diagnostic for a follow-on project to review options for USAID post-privatization assistance that would maximize a growing capital market's impact on the restructuring of the Ukrainian economy.

Meetings were held in Kiev with representatives from:

- ◆ USAID/Kiev
- ◆ USAID/Washington
- ◆ The Mass Privatization Program (MPP) and the Government of Ukraine
- ◆ Ukrainian Broker/Dealers

**Contributing Staff Members**

Jonathan Bulkley, Jack Horowitz

**Accomplishments of Task**

Identified capital markets infrastructure needs and recommended a course of action to fulfill those needs. Expected results and benefits were identified and potential follow-on projects to continue the transition's acceleration were suggested. Assisted USAID/Kiev to draft a policy document on the development of secondary market trading in Ukraine:

- ◆ Reviewed existing draft capital market policies in Ukraine
- ◆ Advised counterparts and USAID with respect to secondary trading, telecommunications and the promotion of an independent securities commission in Ukraine
- ◆ Recommended necessary rules adherence to ensure investor protection for secondary market trading
- ◆ Assessed environment for a self-regulatory organization of broker/dealers that will own and operate the secondary market trading and communications system to be established.

**Deliverable**

- ◆ The deliverable will be a report, 5-10 pages in length, describing what was accomplished by the consultants, with recommendations for a future course of action with respect to developing a market-oriented secondary trading system. The report should contain conclusions drawn from working sessions with the Ukraine legislative and government counterparts and the contractors' experience in Russia.

**Issues, Recommendations, and Unfinished Tasks**

- ◆ Given a universe of approximately 8,000 companies, it is assumed that there will be large variations in trading activity and thus a long-term need for the less efficient registrar process, while simultaneously building more contemporary trading, clearing, settlement and depository institutions.
- ◆ The development of three new institutional structures were suggested to supplement the role of the Ukrainian Stock Exchange and the "Depository" currently affiliated with that exchange:
  - ◇ A national electronic dealer market, ideally quoting transaction prices and volume for all MPP companies, which would be owned and operated by dealer associations that are also Self-Regulatory Organizations (SROs)
  - ◇ Regional Clearing, Settlement and Depository Organizations (CSDOs)
  - ◇ A regional network of "Community Registrars" that are truly independent and professionally managed.
- ◆ Additional Issues:
  - ◇ Potential benefit of beginning with a national electronic dealer market rather than evolving into a national system from linked regional dealer associations.
  - ◇ First priority should be pilot registrars and the establishment of a Registrar Support Center; shareholder registries are an essential component of any capital market.

## FINAL REPORT

**Title of Activity** Task Order # 21-0133-KPMG: Business Toolkits  
for Russian Enterprises

**Country of Performance** Russia

**Period of Performance** April 1 - September 30, 1996

### Brief Overview of Scope of Work, Technical Approach and Methodologies Used

This project involved the design, roll-out and modification of marketing tool-kit seminars that reflected the experience and lessons learned during the Program for Intensive Enterprise Support (PIES) project (Task Order 17-0019 KPMG). Three-day seminars were conducted in 15 locations: Chelyabinsk, Orenburg, Pskov, Saransk, Kirov, Perm, Vladimir, Krasnodar, Ekaterinburg, Barnaul, Kurgan, Tomsk, Tyumen, Abakan, and Krasnoyarsk. Many companies (120) participated in the seminars. Attendees were surveyed on a range of criteria, including:

- ◆ Importance of the modules
- ◆ Effectiveness of the modules
- ◆ Relevance
- ◆ Satisfaction
- ◆ Necessity for improvement
- ◆ How much they would be prepared to pay for such a seminar

Modifications were then made to the tool-kit presentations on the basis of the reviews and comments from both the audiences and the presentation teams.

### Contributing Staff Members

Subcontractor: Bain & Co., Inc.

John Tokolish, Ben Burman, Alan Sutherland, Yuri Mashintsev,  
Victoria Moshashvili, Mishas Radick, Alex Karavaikian, Stanislav  
Marulin, Konstantin Zubanov, Oleg Svetlov, Vsevolod Rozanov

### Accomplishments of Task

The four modules were substantially reorganized into five modules based on the comments received from the seminar participants and the suggestions of the presenting teams. The guiding principle was to increase the seminar participants' understanding of complex concepts and to increase the practicality of the modules.

## Issues, Recommendations, and Unfinished Tasks

### Lessons learned:

- ◆ Preparatory phase
  - ◇ Need to reduce programme intensity
  - ◇ Need for carefully managed participation fee
- ◆ Implementation phase
  - ◇ Increase dialogue during the seminar learning process
  - ◇ Increase perception of practicality and relevance for each enterprise
- ◆ General lessons learned
  - ◇ Need to define audience and tailor materials accordingly
  - ◇ Role of the local privatization center
  - ◇ Importance of hand-out materials

**Final Note:** The roll-out materials were used on a trial basis with one Ukrainian enterprise with which Bain & Co. was working. One consequence of this was that the Western NIS Investment Fund, backed by the Department of Commerce, became aware of the marketing tool-kit materials. This fund is now interested in using these materials with all the individual companies in which they have made investments.

This roll-out of the materials and their perceived relevance by a demanding audience -- that of the venture capitalist -- is a testament to the long-term value that these materials are likely to have for a very large number of enterprises and managers. In this regard also, it is worth noting that several of the LPCs are using these materials as a selling point of other RPC assistance programmes -- for example, the World Bank loan facility for restructuring -- in order to show that quality assistance is available and that the apparent great expense is economically justifiable.